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SUMMARY  
OF THE  
ADMINISTRATION  
OF  
LORD CURZON OF KEDLESTON,  
VICEROY AND GOVERNOR GENERAL OF INDIA,  
IN THE  
FINANCE AND COMMERCE DEPARTMENT.

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I.--JANUARY 1899--APRIL 1904.

II.--DECEMBER 1904--NOVEMBER 1905.

PARTS I AND II.



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**SUMMARY**  
**OF**  
**LORD CURZON'S ADMINISTRATION**  
**IN THE**  
**DEPARTMENT OF FINANCE AND COMMERCE.**

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<b>Part</b>	<b>I</b>	<b>...</b>	<b>...</b>	<b>Review of important measures.</b>
<b>Part</b>	<b>II</b>	<b>...</b>	<b>...</b>	<b>Departmental history.</b>
<b>Part</b>	<b>III</b>	<b>...</b>	<b>...</b>	<b>Illustrative documents.</b>

*Explanatory note.*—The following summary covers the two terms of Lord Curzon's Viceroyalty from January 1899 to April 1904, and from December 1904 to November 1905, and also the intervening months in 1904 during which Lord Ampthill held office as Viceroy and Governor-General. During the greater part of these seven years the classes of public business dealt with in the summary were administered by the Finance Department. In March 1905 the commercial and *quasi*-commercial subjects were transferred to the new Department of Commerce and Industry. The present summary however includes an account of the subsequent treatment of the branches of business so transferred.

Part I reviews the more important measures of financial and commercial policy.

Part II deals with minor measures under these heads, and also with the following special subjects:—Opium, Excise, Salt, Income Tax, Stamps, Post Office, and Printing, and some miscellaneous matters.

Part III is a collection of the principal despatches and letters of the Government of India to which reference has been made in the narrative portion of the summary.

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**PART I.**  
**REVIEW OF IMPORTANT MEASURES.**



## CHAPTER I.—INTRODUCTORY.

The distinctive aim and achievement of recent finance have been the establishment of a sound monetary system: a task which Lord Lansdowne began, Lord Elgin carried on, and Lord Curzon's Government completed. If the character and purpose of financial policy in the last seven years are to be clearly apprehended, this problem, which dominated the administration of four preceding Viceroy's, must again, though it may be hoped for the last time, be assigned a foremost place. At the same time currency reform, however urgent and essential, was only a preliminary to the attainment of wider aims. The two most technical measures to be described in the following chapters—the establishment of the gold standard and the revision of the system of provincial settlements—are also the most far-reaching in their effect on trade and administration. The first was instituted to meet the exigencies of State finance: in fact, would never have been sanctioned by authorities higher than the Government of India, or by the verdict of public opinion, for any less definite and urgent object. But the moment the question emerged from the negative into the constructive stage the financial aspect ceased to be prominent; and currency reform became the corner stone of a new policy of commercial and industrial development. A similar change of standpoint can be observed in the treatment of the problem of financial decentralization. The first provisional solution attempted over thirty years ago was expressly designed to resist the encroachment of administrative claims. In the revised scheme which belongs to Lord Curzon's time these claims are predominant.

*Aims of finance.*

These typical measures suggest the divisions into which the subject naturally falls. The following review attempts to exhibit the direct influence of finance in promoting the economic welfare of the people and the efficiency of the civil administration. The first object finds expression in the attitude of the Government towards various monetary questions, in their policy of borrowing and productive expenditure, and in their conduct of commercial business. The relation between finance and administration is studied in the three concluding chapters, which deal with the system of accounts, with revenue expenditure and taxation, and with provincial finance. Minor matters belonging to these groups, and also several branches of public business which fall outside the general scheme, are reserved for detailed examination in the second part. In presenting these questions the commentary upon aims and results has been combined with the facts and figures to which it relates. This method seems specially applicable to the subject matter of finance. The statistics, for example, of revenue and expenditure would be uninforming without analysis and explanation, and the significance of the measures by which the gold standard was built up depends almost wholly upon the practical conditions which regulated the time and mode of action.

*Scope and arrangement of this memorandum.*

But it will be convenient to indicate in this place the salient features in the new financial situation and to enumerate the principal measures with which it is associated. As already stated, the gold standard is for most purposes a completed reform. Its benefits are now shared by many of the Native States which have wisely abandoned their special local currencies in favour of the British rupee. In other matters of money and banking the discussion of larger projects has eventuated in experimental measures such as the adoption

*Principal measures examined.*

*Chapter II*

*Chapter III.*

*Chapter IV.*

of a universal currency note and the proposal to allow the Presidency Banks to borrow in London. The problem of public works finance has scarcely even yet emerged from the stage of discussion. But there has been a great extension of railways and irrigation, accompanied by administrative improvements on which a financial review can only lightly touch. Under Commerce the leading reform is the creation of a new Department of Commerce and Industry supplemented by the reorganization of the customs department and the establishment of a Commercial Bureau. The well-known pronouncement on the question of Preferential Tariffs and the imposition of countervailing sugar duties are other notable features of recent commercial administration ; while the remarkable growth of trade supplies evidence of the prosperity which the foregoing measures are designed to foster. The attitude of the Government towards local industries finds a further illustration in the Indian Tea Cess Act and the grants for tea and indigo research ; but cannot be exhaustively described except by collating the history of the different departments among which commercial business was distributed for

*Chapter V.*

the first six years of the period under review. The chapter on the account system records the substitution of sterling for rupee figures in the financial returns, the partial simplification of railway accounts, and the rejected proposals for the formation of a genuine famine insurance fund. In all these measures the Government had in view more substantial advantages than mere improvements in technique. The analysis of revenue and expenditure shows how the recent expansion of revenue has been obtained almost exclusively from the growing yield of State industries and the increasing purchasing power of the people. A part of the taxation which pressed most heavily upon the poorer classes has been remitted ; a normal standard of administrative efficiency has been restored ; and funds have been found with which to set in hand the larger measures of internal reform which assumed their final shape towards the close of the period. On the other hand, the requirements of national defence, brought home by the wars in South Africa and the Far East, have claimed and must for some time absorb

*Chapter VI.*

a large share of the Government's surplus resources. Administrative demands can never be entirely exempted from this competition ; but their urgency has been recognized, and the position of Local Governments strengthened, by the revised scheme of decentralization which guarantees a liberal and *quasi*-permanent allotment for provincial needs. The new system is dependent upon the stability of the general financial position ; but this, it may be hoped, is now assured against all but the extraordinary calamities of war and famine.

*Chapter VII.*

These financial measures fall readily into line with the other acts of Lord Curzon's Viceroyalty. All proceed from the same general policy, variously expressed in the different branches of administration but uniformly distinguished by the combination of progressive aims and financial opportunity. The new conditions are in striking contrast to those of earlier and less fortunate years during which the maintenance of national solvency was the keynote of administration. But the wider range and activity of recent policy are largely due to the efforts and sacrifices by which this prior obligation was fulfilled.

*Conclusion.*

These financial measures fall readily into line with the other acts of Lord Curzon's Viceroyalty. All proceed from the same general policy, variously expressed in the different branches of administration but uniformly distinguished by the combination of progressive aims and financial opportunity. The new conditions are in striking contrast to those of earlier and less fortunate years during which the maintenance of national solvency was the keynote of administration. But the wider range and activity of recent policy are largely due to the efforts and sacrifices by which this prior obligation was fulfilled.

## CHAPTER II.—THE ESTABLISHMENT OF THE GOLD STANDARD.

The establishment of a gold standard was ineffectually pressed upon the Home Government in 1865, several years before the continuous depreciation of the rupee began. By 1878 there was ample justification for the renewal of the proposal, but it was again rejected. Thenceforward the Government turned their thoughts to bimetallism, but, as is well known, all efforts at securing an international agreement failed, and at the Brussels Conference of 1893 it seemed that the world had finally rejected this remedy. In the same year (1892-93) the average value of the rupee had for the first time fallen below 16*d.* and some time previously (in 1886-87 and 1888-89) additional taxation had been imposed to meet the increasing loss by exchange. The cause of silver was still supported by special legislation in the United States, but the imminent probability of the repeal of the Sherman Act accentuated the need for decisive action on India's part. Sir David Barbour was at this time responsible for the direction of Indian finance, and to him and to Lord Lansdowne, as the Head of the Government, an incalculable debt is due. They recognized, or rather anticipated, the crisis, and advocated the only remaining remedy, with a success denied to their predecessors. The Government of India were permitted to take measures for their own protection, and in June 1893 the Mints were closed to the free coinage of silver, as the first step towards a gold standard. It was not however till 1897-98 that the average value of the rupee again rose above 15*d.* Fresh taxation was once more imposed, and there was no doubt some temptation to modify the policy previously declared by accepting and working for a lower rate than 16*d.* Happily this temptation was resisted. Lord Elgin's Government determined instead to cut short the period of waiting and distrust, and to this end submitted proposals to the Secretary of State in March 1898, which were referred by him in the following month to a strong and representative committee under the presidency of Sir Henry Fowler.

*The course of the Currency question prior to 1893.*

*The closing of the Mints by Lord Lansdowne's Government.*

*The period of transition under Lord Elgin's Government.*

The Committee presented their report in July 1899. In this interval, which covers the date (January 1899) when Lord Curzon came to India, the situation had completely changed. During 1898-99 the value of the rupee averaged almost exactly 16*d.*, and gold to the value of nearly £2,000,000 sterling flowed into the Indian treasury. The policy of 1893 had in fact become effective without further intervention on the part of the Government. The Currency Committee were thus absolved from any obligation to approve or devise an artificial scheme for accelerating the appreciation of the rupee. It became their duty to consider how best to secure the position already attained. The Committee recognized that the work of currency reform, though hopefully begun, was by no means completed by the mere influx of gold in 1898-99:—

*The provisional system as operative in 1898-99.*

“In no case could the provisional arrangements now in force constitute—nor, indeed, were they ever intended to constitute—a permanent settlement of the problem.... If in face of the public attention which the question has attracted, and in face of the considerable divergence of the views expressed on the subject, no further steps were now to be taken, an additional uncertainty would be caused; doubts would be excited as to the ultimate success of the gold standard; rumours would arise of a possible change of currency policy; the Government both in India and at home would be pressed for a final pronouncement, alike by the friends and by the foes of a gold standard; and meantime the material interests of India would suffer from the withdrawal of confidence in her monetary future.”

*Character and defects of the provisional system.*

The defects of this provisional system or "exchange standard" measure the work which remained to be done. It rested upon the legislation which closed the Mints and so prevented indefinite additions to the rupee coinage, and also upon certain supplementary orders by which the Government undertook to give immediate payment in rupees (at the rate of 1s. 4d. per rupee) for any sovereigns tendered to them, and to pay for gold bullion at a corresponding rate after such interval from the date of tender as might be prescribed. The idea underlying these measures was that the ultimate effect of stopping the supply of new rupees must be continuously to force up exchange till a maximum rate was reached only exceeding 1s. 4d. by the cost of transmitting gold. At that point the balance of indebtedness due to India would naturally be paid in gold, which under the foregoing orders would accumulate in the hands of the Government. When the tide turned and the price of Council Bills began to fall, exchange was to be steadied by shipping gold to England in payment of the home charges instead of selling Bills.

By these measures the rupee was severed from silver without being at once anchored to gold, and remained liable to violent temporary fluctuation though not to progressive depreciation. The declaration of a maximum rate of exchange encouraged an exodus of capital as soon as the gold point was approached which undid any previous success. The Government asked for confidence, but the scheme, being unavoidably artificial, could not command it, nor did the slow rate of progress since 1893 seem to accredit the theory of prices to which the Government appealed, or to justify the proposal to extend it to the melting down of rupees—an extreme procedure which was regarded as a grave menace to the interests of the money market. These difficulties might possibly have proved less serious if the Government had been so far pledged as to preclude the possibility of a reversion to open mints, but that alternative had not been absolutely closed.

*The currency programme of Lord Curzon's Government: (i) Fixity of exchange.*

This temporary system had now to be replaced, or at least completed. The first aim was of course to fix exchange at the level which it had at last reached. This demanded a confidence which could harbour no doubt of the determination of the Government to see their policy through, and the accumulation of a strong reserve of gold which would demonstrate their ability to do so. The second requirement was that, whatever the outward forms of control, the currency system should be in fact self-regulating. Importers of gold must be able to get rupees, and the gold must be available for export when required; and these additions to or withdrawals from the active circulation must be precisely such as are effected by the "free trade in currency" which goes on in an ordinary gold standard country. Practically this meant that the import of gold must be accompanied by the spectacle of busy mints and tangible additions to the rupee coinage. The third aim, to be kept steadily in view but without hope of immediate consummation, was the establishment of a gold currency. When gold was in free circulation in the principal centres of trade, in such quantities that the demands of importers and exporters could be met by the Banks instead of through the medium of the Government, the form as well as the substance of "management" would disappear.

*(ii) Automatic regulation of coinage.*

*(iii) A gold currency dissociated from Government control.*

*(iv) A cautious financial policy.*

Meanwhile, as no heroic measures were to be adopted, and the renewal of adverse conditions might shake public confidence and strain the system before it was mature, it was essential that the Government, as the largest operator on

the exchanges, should do nothing to depress them unnecessarily. As the Currency Committee observed in the concluding words of their report, "the Government of India should husband the resources at their command, exercise a resolute economy, and restrict the growth of their gold obligations." Later chapters, especially that dealing with railway finance, will show the importance which the Government attached to this caution.

Finally, it should be added that the encouragement of industrial activity which, on its own merits, has found a foremost place in recent policy, gains an additional justification, if that were required, from its bearing on the exchange question. Without a surplus of exports over imports all purely financial measures for supporting exchange must ultimately prove ineffectual. (v) *The development of industry.*

The programme being settled, the methods to be employed were dictated by existing conditions and modified as experience was gained. The new currency system was not built on a standard plan. In such matters every country has its special advantages and disabilities. Aided by a fortuitous incident of her financial system, and favoured by the trend of events, India found herself able to forego the demand for extraordinary powers. She relied solely on the ordinary course of trade to supply her with gold, and on the ordinary financial machinery to enable her to deal with it. Other countries have supported a gold standard by borrowing, and even in India the possession from the first of the power to borrow for exchange purposes might in certain events have proved invaluable. It would at any rate have mitigated the anxiety as to the adequacy of the gold reserve, which, by leading the Government to postpone the purchase and coinage of silver to the last possible moment, was the cause of serious embarrassment in the early stages. But, though the Currency Committee as a whole recorded no definite judgment on this point, the adverse views of several members so far prevailed that borrowing, though not absolutely ruled out, was treated as inadmissible except possibly in the last resort. The sale of silver currency as bullion, an expedient not untried in Europe, had also come to be considered as a disquieting remedy not lightly to be hazarded. The imposition of a heavy import duty on silver bullion—at one time a possible competitor of Council Bills—was suggested by a number of authorities, but this too was not accepted. Limitations under which this programme was carried out.  
(i) *Special restrictions.*

India also laboured under other disadvantages, traceable for the most part to the economic conditions which compel her to retain silver as her most important currency medium while taking gold as her standard and attempting to bring it into effective circulation. She was also restricted by her financial system and traditions. Secrecy is a recognized advantage in operations of this kind, but in India publicity is imperative. Again, there was no strong central bank like the Bank of France to take the place or at least to cover the initiative of the Government. In its absence the paper currency reserve became the pivot on which the whole system turned. Any pressure, any lack of smoothness, any symptom of a breakdown was likely to be resented as a violation of the sanctity of the currency note. The origin of this curious feature of the system requires some explanation. As borrowing was disallowed the Government could only obtain gold by buying it from importers with the rupees in their cash balances, that is in the working balances of the treasuries, or in the special metallic reserve which secures the currency notes. Even these could only be utilized if they happened to be larger than circumstances required, for the Government like commerce have to keep enough silver coin for their ordinary current payments. The Treasury balances, though they rise to a high figure in the revenue collecting (ii) *Disabilities incidental to the Indian financial system.*



season, are on an average kept at the lowest amount consistent with safety and economy. Consequently it was impracticable to use them as a reservoir for gold except temporarily and to a limited extent. The paper currency reserve, however, was much larger than reasonable caution could demand, the whole value of the notes issued being reserved in rupees, except Rs. 10 crores invested. The latter amount was below the real limit of safety, and it was therefore practicable to replace some of the surplus rupees by gold and so avoid borrowing. This is the "fortuitous incident" to which reference has been made. It obviously carried with it the inconvenient possibility that as the total stock of rupees and gold which the currency reserve could hold was absolutely limited by the volume of the note circulation, an excessive tender of one metal might easily cause a dangerous deficiency in the other.

*Proposals of the  
Currency Com-  
mittee.*

The recommendations of the Currency Committee have not yet been summarized. At the time the Committee sat future developments were still too uncertain for specific instructions on the one side and merely mechanical compliance on the other. The practical working out of the exchange question was left to the Government of India. On questions of principle they were guided by the findings of the Committee, and supported by their great authority. These findings were the natural outcome of the policy which had

*(i) On the closure  
of the Mints.*

been continuously pursued till 1898. The Committee decided unanimously against the reopening of the Mints to the free coinage of silver; they favoured, by a large majority, the maintenance of the 16*d.* rate; and in a passage already quoted they showed that the time had come for further and decisive

*(ii) On a gold  
currency.*

steps. The crucial question was whether gold should be made a circulating medium as well as the rupee. On this point their judgment was emphatic and binding. They accepted the view that "any system without a visible gold currency would be looked upon with distrust", and were accordingly in favour of making the British sovereign "a legal tender and a current coin" and also of opening the Indian Mints to the unrestricted coinage of gold.

*(iii) On converti-  
bility.*

A scarcely less important question was that of convertibility. In this matter they were entirely in accord with the Government of India. They advised that, following the example of France and the United States, India should avoid a legal obligation to give gold for rupees on demand, or for merely internal purposes, but remain content with practical convertibility. The "principal use of a gold reserve" was that "it should be freely available for foreign remittances whenever the exchange falls below specie point; and the Government of India should make its gold available for this purpose, when necessary, under such conditions as the circumstances of the time may render desirable." This avoidance of an unlimited obligation did not imply any uncertainty as to the maintenance of the currency policy. It meant that if difficulty or embarrassment should arise, trade as well as the Government must bear its share of the temporary inconvenience. But though there might be a halt or a check, there would be no going back.

*(iv) On rupee  
coinage.*

As regards the resumption of rupee coinage, they declared that "fresh rupees should not be coined until the proportion of gold to the currency is found to exceed the requirements of the public. We also recommend that any profit on the coinage of rupees should not be credited to the revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances."

The report thus settled all or almost all the leading principles. Later experience, while revealing practical difficulties in giving effect to some of these conclusions, has not impugned their soundness. On the contrary, much of the success attained must be attributed to the confidence secured by the Committee's authoritative and lucid exposition of this complicated problem.

On the publication of the report in July 1899, the Government of India at once declared their general adhesion to the principles laid down. They had begun to consider the measures required for making gold legal tender and for the coinage of gold before the full text of the report was received; and there could of course be no question of their continued opposition to the free coinage of silver, or to all proposals to accept a lower sterling rate than 16*d*. Their policy on the more debateable points may best be stated in the words of their despatch\*:  
*Government of India's views on the Currency Committee's report*

"We note with great satisfaction that the Committee and Your Lordship are agreed that we should not accept any legal obligation to give gold in exchange for rupees. To undertake such an obligation at this stage would involve borrowing an indefinite amount of gold for the purpose of convertibility, and to such a course there are the strongest and most obvious objections. Moreover, a stock of gold acquired for this object would be watched with excessive anxiety, and any shrinkage in its amount would be likely to foster apprehension, if not panic. At the same time we hasten to add that we must aim at the attainment, with the least avoidable delay, of practical convertibility, such as exists in France.

"We also concur in the determination that the rupee shall remain full legal tender as at present. ....Gold in our opinion will remain a marginal currency.

"The question of making our gold reserve freely available for foreign remittance is one in which the Indian business community is keenly interested. It is a question that touches them more nearly than any other connected with the currency..... We have the strongest opinion that our gold reserve should be available for foreign remittances, and that the natural and proper function of gold, when the standard is established, will be to flow in and out of the country in response to the seasonal demands of trade and so to impart elasticity to our currency. After the gold standard has been firmly established, the inflow and outflow of gold will be automatic; but at the beginning of the new system the particular manner in which the gold reserve may be drawn upon for the purpose of securing stability in exchange must be considered and determined in the light of circumstances as they may arise. Probably for some time to come the only method to be employed will be to remit gold to Your Lordship when exchange shows a tendency to fall below specie point, and to reduce the drawing of Council Bills by an equivalent sum. We may also proceed in time to discharge obligations in gold or to pay certain classes of currency notes in gold, and gold so paid would reach the banks and be made available for foreign remittance.

We are absolutely opposed to borrowing for the purpose of securing convertibility, and we are also opposed to any immediate borrowing in order to accumulate a stock of gold for the purpose of maintaining exchange. Such borrowing may never become necessary, and would, in that case, impose an unjustifiable charge for interest on the tax-payer. But we cannot conceal from ourselves that if India were afflicted with famine or other adverse circumstances in the earlier years of our new currency, and before an adequate reserve had accumulated, circumstances might arise in which borrowing to maintain the standard would become an absolute necessity. We should have preferred to have been armed against such a contingency not by actual borrowing, but by obtaining power to borrow. We have learnt with satisfaction that Your Lordship has stated in the House of Commons that borrowing would be resorted to if it should prove to be necessary."

The Bill to amend the Coinage and Paper Currency Act was passed† on the 15th September 1899. It unfortunately proved impossible to include in it provisions for gold coinage at the Indian Mints, nor was this measure really urgent. The Bill, however, made gold coin legal tender and authorized  
*and the immediate action taken to give effect to them.*

\* Desp. to Secretary of State, No. 301, d. 24th August 1899 (Part III, page 3).

† Act XXI of 1899.

the issue of notes in exchange for it. To remove any misunderstanding as to the precise effect of this legislation, a circular was issued some time later informing the public in the clearest possible way of the obligation imposed on all corporations and private persons to accept gold presented in payment of sums due to them.

*Rapid influx of  
gold (winter 1899-  
1900).*

Though gold was at once made legal tender, it was not expected that it would become spontaneously popular as a circulating medium. The immediate object of this as of other measures was to create the confidence which was indispensable to fixity of exchange. That being given, time would be gained for accumulating a stock of gold—the material guarantee of stability. In this aim the Government were unexpectedly and embarrassingly successful. Resolved to turn no gold away that could reasonably be expected to come, they arranged to accept the produce of the Indian mines (about £2,000,000 a year) which had previously been shipped to England, passing on its way the doors of the Bombay Mint. The Indian gold is below standard, but the Government were glad to encourage a notable British-Indian industry, and they intended to refine the gold themselves as soon as the Bombay Mint was opened to gold coinage. The Government similarly accepted certain consignments of Japanese yens, a coin which is also below standard fineness: but in this case they left themselves at liberty to refuse them at any time. Meanwhile sovereigns and gold bullion which was “fit for coinage” continued to be tendered under the ordinary notifications. There was not a single month in 1899 in which some gold did not arrive, and the stock which stood at under £2½ millions in July had increased to £4 millions in November. At this point the Secretary of State enquired\* how long it would be safe to go on substituting gold for rupees in the paper currency reserve. The Government of India’s reply† marks a new phase of the question. Fixity of exchange had seemed assured if only the accumulation of gold were not stopped. But if the currency reserve could hold no more, any further tenders of gold must either be refused, which meant a complete breakdown; or employed in purchasing silver bullion for the coinage of rupees, which appeared to involve the double risk of reducing the gold reserve and also “diluting” the rupee coinage; or accepted and immediately put into circulation. This last alternative offered, if successful, a useful method of getting rid of a few millions in any future emergency, and the Government of India decided to make the experiment before any real difficulty had arisen:—

“The note circulation is now about 27 crores. Of the reserve of the same amount the sum of 10 crores is held in securities, and 17 crores in coin and gold bullion. We are of opinion that there will practically be no fear of our having to exercise our option of paying currency notes in sovereigns against the wishes of the presenters if the reserve consists of silver coin to the extent of 9½ crores. This will leave 7½ crores to be held in gold. We accordingly propose £5,000,000 as the limit for the amount of gold to be held in the Currency Reserve. There will, however, be no objection to exceeding the limit in the earlier months of the period of high balances which will begin in January 1900. Before the period of high balances comes to an end, we hope, if the influx of gold continues, to acquire experience with regard to the two essential factors which are now in doubt: namely, to what extent presenters of notes will actually object to receive sovereigns instead of rupees, and whether we have placed our estimate of requirements of silver coin too high, even allowing that the objection will be general. We propose accordingly, when the stock of gold reaches £5,000,000, to instruct the Currency Offices at Calcutta and Bombay to offer sovereigns to presenters of notes, but to give rupees to any one who objects to receive sovereigns and asks for rupees.

\* Telegram from Secretary of State d. 10th November 1899.

† Desp. to Secretary of State, No. 421, d. 14th December 1899 (Part III, page 7).

This contingency was soon realized. The stock of gold in India reached £5 millions by the middle of January 1900, and the first beginning was then made of active efforts to establish a gold currency as well as a gold standard. Sovereigns were offered to persons tendering notes at the Currency Offices in the Presidency towns and other circles, and shortly afterwards at the treasuries in six or seven other large towns such as Cawnpore and Karachi. In this way in six weeks a sum of £84,859 was put into a precarious and temporary circulation. But in spite of these outgoings the stock of gold in India had increased in the same period to £6,604,421. At the same time owing to famine requirements the treasury balances, from which the Government had hoped to secure some temporary relief, were unprecedentedly low, falling in February and March to more than Rs. 3 crores below the corresponding figures of the previous year. A critical situation had in fact arisen, and though it was less serious than it became a few weeks later, the strain on the currency reserve and the treasuries was so great that half rupees had to be offered in exchange for notes presented by intending shippers for Rangoon, and serious difficulties also arose in Madras and elsewhere. The position is summed up by the fact that at the end of February the silver in the paper currency reserve had fallen below Rs. 5 crores in place of the total of Rs. 9½ crores mentioned in the despatch. In effect this small reserve had to secure the convertibility of Rs. 27 crores of notes as well as of fresh imports of gold, without assistance from the Treasury in which the rupee balance was less than Rs. 4½ crores.

The experiment of putting gold into circulation had apparently been started on too narrow a basis. It was determined to push it more energetically. About one-eighth of the whole number of treasuries in India were supplied with gold to give to any one who might ask for it; the Presidency Banks were asked to pay all claims on Government account in the Presidency towns and Rangoon as far as practicable in sovereigns; the Postal Department was similarly in these places directed to pay money orders in sovereigns; and the minor treasuries to which a special supply of gold had not been sent were authorized to pay out to applicants for sovereigns any which they might receive from the public in ordinary transactions. Finally, to remove any distrust of the gold in circulation, treasuries and currency offices were directed to receive sovereigns below current weight at their face value if they had been reduced by fair wear and tear and not by illegal methods. The practical effect of these instructions was that in all the largest and in many smaller centres any one who preferred gold was enabled to obtain it. To a very slight extent the public were pressed to accept sovereigns, but only in places where they could immediately and without loss exchange them for rupees.

This was only one of the measures by which the severity of the crisis was mitigated, and at the time the immediate benefit from getting rid of surplus gold was less in view than the ultimate advantage of accustoming the community to its use. Nevertheless, it is probably the fact that, but for these orders, which were estimated in June to have put £1¼ millions into circulation, the Government could scarcely have prevented the complete collapse which was threatened a few weeks later.

The second remedy was to coin rupees, as borrowing them was impracticable. In January and February 32 lakhs of uncurrent rupees were recoined, and at the same time sufficient bullion was purchased in India to coin another crore. This amount was sufficient to keep the Calcutta Mint fully occupied till the end of

*Difficulties with the currency reserve in February 1900 : (i) First attempts to put gold into circulation.*

*(ii) Further measures for putting gold into circulation (March 1900).*

*(iii) Their intention and result.*

*(iv) Additional rupee coinage.*

March, by which time it was hoped that the pressure would be relaxed. But as a precautionary measure the Secretary of State was requested at the beginning of March to purchase and ship to India £500,000 worth of silver bullion to supplement the amounts already mentioned. Negotiations had also been opened with the Maharaja Sindhia in February for a temporary loan in rupees or local coin. From this source (though not till May) the Government obtained enough bullion to coin into another Rs. 70 lakhs.

(v) *Measures to expedite future silver coinage.*

Though reluctant to embark on further coinage till the effect of these issues could be estimated, the Government recognized that fresh additions might at any moment become imperative. The lapse of many weeks in the operations of purchase, remittance, and coinage of silver constitutes a difficulty which may be neutralized in some degree by foresight, but cannot be entirely obviated, though measures since undertaken go far to achieve that object. The law, however, interposed a needless obstacle to expeditious coinage by making it impossible to remove gold from the currency reserve till the newly coined rupees were ready to take its place. Consequently the silver bullion had to be purchased from the general balances in India or England: an extravagant procedure which might at any time involve serious delay in waiting till the balances were high enough for money to be spared from them. The Government of India accordingly asked\* the Secretary of State's sanction to such an amendment of the Paper Currency Act as would permit of gold in the currency reserve being used direct for the purchase of silver bullion for coinage. At the same time it was proposed to continue an arrangement first legalized as a temporary measure by Act II of 1898, under which notes could be issued in India against gold tendered to the Secretary of State in England, the gold so tendered being held there as part of the currency reserve. The effect of this arrangement, when coupled with the amendment of the Paper Currency Act just referred to, was to save delay in shipping gold to London when silver could not be purchased in India. Both these proposals were sanctioned and effect was given to them by Act VIII of 1900, but only after some discussion which delayed legislation till June.

(vi) *Principle of basing additions to rupee coinage on the necessities of the currency reserve.*

This matter had an important connection with the shaping of the currency system. The difficulties of February and March 1900 had proved the practical need for additional coinage, but had shown that the amount and occasion of such additions must be determined by some safer rule than that of coining the minimum quantity at the last possible moment. The following passage from the Government of India's despatch\* marks a close approach to the position finally taken up:—

"We think it preferable to provide ourselves with a means of buying silver which will not involve possible inconvenience in the administration of the ordinary cash balances in India or England, and which will avoid all risk of delay from that cause. Even if we could confidently depend on the use of the ordinary cash balances for the purpose, we should still prefer to use gold in the currency reserve, for the reason that that course would be a move in the direction of obtaining a test, if not automatic yet practically satisfactory to the public, for determining when further coinage of rupees is necessary. If the purchases are made from ordinary balances at the discretion of the Government, the exercise of that discretion will always be open to unfavourable criticisms sometimes in one direction, sometimes in another."

In Sir Clinton Dawkins' budget statement of March 1900 the position is even more clearly stated:—

"Henceforward the Government will be guided by the trade demand for our silver circulating medium, for our notes printed on silver as we may really regard our rupees as being, the

\* Despatch to Secretary of State, No. 108, d. 29th March 1900 (Part III, page 9).

trade demand expressing itself in the presentation of gold. As long as Government refrains from coming rupees, except upon the demand of trade, there can be no dilution of the currency. There can be no contraction, as long as trade, if it needs rupees, has only to tender a sovereign to obtain silver coin in exchange, coin already in our balances or new silver coin if the balances will not suffice. The only difficulty will consist in closely watching the times and seasons so that the supply may be there to meet the demand and not be forestalled, as rupees take time to coin."

Sir Clinton Dawkins retired from the Finance Membership on the 31st March 1900. In the busy year during which he had held this appointment substantial progress had been made. The energetic action which followed the publication of the Currency Committee's report and the subsequent course of trade left little room for apprehension as to the stability of exchange. The Government of India themselves were confident as to the future, and had notified the fact by bringing back the pound sterling into the annual Financial Statement after an absence of many years. Gold had been made 'legal tender' and an appreciable quantity had been put into circulation. It was too early, when Sir C. Dawkins left India, to measure the success of this last step, but the attempt had to be made, and later events showed that the time had been well chosen. The progress towards an automatic currency was not yet fully defined. The question of rupee coinage was however approaching solution, and the proposals already summarized which led up to Act VIII of 1900 involved a 'real improvement of machinery.

*Summary of results up to 31st March 1900.*

Sir Edward Law succeeded at an anxious moment. The difficulties of February soon recurred in an acute form. On the 11th April the Head Office of the Paper Currency Department at Calcutta was unable to cash (in rupees) three lakhs worth of notes tendered by a leading firm, and the same afternoon the ordinary public demand exhausted the rupee balance an hour or two before closing time. The next few weeks were a time of great strain. The position may no doubt be said to have been continuously embarrassed for almost the whole period from February 1900, when the stock of silver in the currency reserve first fell below five crores, to March 1901 when it suddenly rose from less than six to over nine crores. But in April 1900 the situation was one of daily peril.

*Renewed difficulties with the currency reserve in April 1900:*

The immediate danger admitted of no complete safeguard. The two mints were kept at work night and day. More silver was ordered, but it could not be purchased and shipped and coined till after the worst of the pressure was over. All that was practicable in the way of issuing gold was already being done. The Comptroller-General was busily employed in moving coin backwards and forwards to the places where it was in most urgent demand. The Secretary of State co-operated by refusing\* to sell Council Bills. Fortunately the busy season was just ending and these measures sufficed to tide over the crisis. The Paper Currency Department had more than one narrow escape, and awkward incidents were also reported from the interior. Thus in the United Provinces both sovereigns and currency notes were said to have fallen to a heavy discount. But at any rate rupees were not again refused for notes at the offices of issue.

*(i) Measures to relieve the immediate pressure.*

After this experience of the suddenness with which a crisis might develop, and with the jute season coming on, the Government decided to take such measures for the early future as would give them time to

*(ii) Precautions for the early future*

\* Telegram from Secretary of State, d. 3rd May 1900.



review the whole system and place it on a more regular basis. Silver was freely purchased in England, £500,000 worth being ordered in April, the same quantity in May, and £400,000 worth in June. Altogether in the first six months of 1900 the Government undertook about  $6\frac{1}{2}$  crores of new coinage. Steps were also taken to check the excessive imports of gold bullion. With certain modifications by way of notice in favour of consignments already at sea, it was decided to refuse altogether bullion which was not "fit for coinage" until the Bombay Mint had been opened to gold coinage. This excluded Japanese yens. The Government however made an exception in favour of the Indian mines, and extended to them the new rule which the exigencies of the situation made it necessary to apply to gold bullion "fit for coinage." This rule permitted the tender of such bullion, but postponed payment till sixty days from the issue of the mint certificate. The Government thus secured ample notice except in the case of sovereigns for which the undertaking to give immediate payment in rupees was maintained. It may be noted here that though the interval between tender and payment for bullion was reduced from 60 to 30 days in May 1901, the mines have practically ceased to send their output to the mints.

(iii) *Lessons of the crisis.*

It is probable that the public in general were not fully aware of the difficulties of this period. Sir Edward Law was of opinion that\* the attempt to force gold into circulation had reacted to some extent on the note circulation. But the embarrassments of April and later months were not so notorious as to cause widespread apprehension or panic. The space devoted to these incidents is really justified by their bearing on subsequent policy. They brought to a focus all the inconveniences and risks inherent in the system; and compelled the early settlement of outstanding questions. The gravest feature of the situation had been that it menaced the credit of the note system as well as of the exchange policy. The law compels the issue of notes in exchange for sovereigns, and in this way every importer of gold can convert his demand for rupees into a form which throws on the Government the onus of refusing rupees for notes. Such a refusal would be perfectly legal, but none the less dangerous. Thus, though the Government had refused to undertake statutory convertibility as a principle of their exchange policy, they were practically forced into accepting the obligation to provide rupees on demand as a part of their note system. In the present instance the Government of India did reluctantly obtain\* the Secretary of State's equally reluctant permission to withdraw, in the last resort, the executive undertaking of 1897 by which they had agreed to give rupees in direct exchange for sovereigns. But for the reasons given, this expedient could have had little effect in deferring the time when rupees must also be refused for notes. The practical lesson was that a shortage of rupees leads to an absolute *impasse*, and therefore a shortage of rupees must be made impossible.

*Sir Edward Law's minute of 28th June 1900. Its proposals:—*

The whole subject was reviewed by Sir Edward Law in an exhaustive minute.† He pointed out that in twelve months gold had practically taken the place of silver in the currency reserve, and showed how this was connected with the coin requirements in the interior consequent upon famine. The minute then passes on to the incidents of the crisis and glances at the objections to the measures taken to meet it:—"The rapid increase of the rupee coinage without

\* Telegram to Secretary of State, d. 15th April 1900.

† Minute of 28th June 1900, enclosed with Desp. to Secretary of State, No. 302, d. 6th September 1900 (Part III, page 11).

some definite guiding principle is to be deprecated as likely to induce whatever dangers are to be feared from a subsequent redundancy of rupees. The checking of the importation of gold, even though temporary, when suddenly decided upon must prejudice the legitimate operations of private importers. Even abnormal transfers of Treasury balances are objectionable as involving considerable expense." Then follows a series of important proposals by which the Government's currency policy has since been guided.

The first point taken is that the silver balance in the currency reserve must be sufficient to secure the convertibility of the note issue, that is, the quantity of gold to be kept in the reserve must be limited :—

(i) Limitation of quantity of gold to be held in currency reserve.

"The existence of gold in the reserve, although it has been declared legal tender, cannot satisfy the legitimate requirements of the public .... Owing to the smallness of the sums representing an enormous proportion of commercial transactions, and the very conservative habits of the people, no one, at present, requires gold as a circulating medium in India, and, consequently, the existing stock, as far as currency purposes are concerned, is of no immediate practical value, in case of sudden demands for the encashment of notes. The only way in which it represents suitable security for the paper currency, is that it is convertible by sale, into silver bullion, from which bullion rupees may be coined. Hence, under existing conditions, the gold in the currency reserve can only be considered as an investment subject to the same conditions as the ten crores held in Government securities, and in permitting the present large gold investment, the limit of safety has been passed, and serious difficulties have been encountered, whilst we are far from having acquired the stock of gold requisite for exchange purposes..... Pending an increase in the note circulation..... or some other change in existing conditions, I am of opinion that a maximum sum of approximately £7,000,000 in gold may now be safely held in the currency reserve."

The second point was that the excess above the limit must be devoted to the purchase and coinage of silver. It will be remembered that the Government of India had suggested such a limit in an earlier despatch. But at that time it was proposed to put the excess of gold directly into circulation. It had now been shown by actual trial that this measure did not adequately relieve the strain on the currency reserve. Thus the position had at last to be conceded that after a certain point was reached the continuous presentation of gold must involve the continuous coinage of rupees. The precise point at which coinage must begin will of course vary with the note circulation and from other causes, and with the recent rapid expansion of the note issues and the formation of a silver reserve, as explained in a later paragraph, the necessity for defining the maximum amount of gold which the currency reserve can safely hold at a given time has more or less disappeared. But the essential principle—that the policy of accumulating a stock of gold must be subordinated to that of maintaining an adequate supply of silver—remains unaffected.

(ii) Conversion of the excess into rupees.

The reluctance to coin rupees had been due to the fear of reducing the stock of gold and of "diluting" the rupee currency. To meet these apprehensions Sir Edward Law proposed, as the third step of his scheme, to devote the entire profits on rupee coinage to the building up of a supplementary gold fund unconnected with the currency reserve :—

(iii) Formation of supplementary gold reserve from the profits on coinage.

"The recorded opinion of the Currency Commission is unanimous as regards the necessity of a certain gold reserve being held for exchange purposes .... If it be accepted that £7,000,000 is the maximum sum which, under existing conditions, can be held in the gold currency reserve, in addition to the ten crores already invested, it is evident that such assistance as can be obtained from manipulating the reserve, will fail to provide the sum in gold which it is considered advisable to hold in connection with the maintenance of steady exchange. So far no authority has ventured to name a definite sum which should suffice for this purpose, but there



is a general consensus of opinion, in which I fully concur, that a very considerable sum is required. The most ready way of obtaining such a large sum is by gold borrowings, but the opinion of the Currency Commission was strongly hostile to such a course, and the question, therefore, remains unanswered—How is the necessary stock of gold to be obtained? . . . I propose to create a special “Gold Exchange Fund” independent of, but in case of *extraordinary* requirements for exchange purposes, to be used in conjunction with the gold resources of the currency reserve.”

This reserve, as the minute went on to explain, was to be built up from the profits on rupee coinage from April 1900 onwards. The profit so far realized had been temporarily employed as revenue in meeting famine requirements. It was proposed however that they should be restored as soon as the state of the finances permitted, and this was actually accomplished by December 1901. All profits accruing since January of that year have been passed directly into the reserve, and the fact that they are not to be treated for any purpose as part of the general revenues of the country has since been emphasized by the decision\* to invest them directly instead of passing them through the revenue account.

(iv) Credit to the gold reserve of interest on the paper currency investment.

These three proposals are the essential features of the scheme. It will be necessary to recur to the third, which forms the coping stone of the whole exchange policy. For the present it is sufficient to observe that while this measure offered the strongest assurance of ultimate stability, it was still possible that the current might turn and the demand for rupees change to a demand for gold before a sufficient gold reserve had been accumulated. Sir Edward Law therefore proposed to accelerate the process of accumulation by transferring the interest on the paper currency investment to the gold

(v) Increase of the paper currency investment and its transfer from rupees to sterling securities.

fund instead of appropriating it to the general revenues. He also proposed to increase this investment by devoting £4 or £5 millions of the gold in the currency reserve to the purchase of British Consols, and similarly advised the gradual transfer of the existing rupee investment of ten crores to sterling securities of the Indian Government. The minute also explained in detail how this scheme was to be worked. The gold in the currency reserve was to be the first line of defence and the “Gold Reserve Fund” (as it is called) the second. Happily the first line has never yet been seriously assailed.

(vi) Method of working this scheme.

Views of the Government of India and the Secretary of State on these proposals.

The Finance Member’s proposals, together with a minute by Lord Curzon, were forwarded to the Secretary of State with a despatch† of the 6th September 1900. The Viceroy had questioned the propriety of increasing the investment and transferring it to sterling securities, and this proposal was not pressed. The first four measures were unanimously supported. The despatch goes over the ground which has already been covered and need not be reproduced. But it is interesting to notice that the Government included among the advantages of the special gold fund the fact that it would in time take the place of the stock of gold in the currency reserve and relieve them “of the necessity for keeping” there “more than a small amount of gold.” The Secretary of State, replying on the 13th December 1900, accepted the three main proposals, that is, the principle of limiting the amount of gold in the currency reserve; the principle of continuous rupee coinage so long as the limit was exceeded; and the formation of a special gold reserve from the profits of coinage. The other suggestions were negatived. Before replying, the Secretary of State had already

\* Desp. from Secretary of State, No. 114, d. 12th August 1904.

† Desp. to Secretary of State, No. 302, d. 6th September 1900 (Part III, page 11).

arranged for the purchase of £2,000,000 worth of silver as desired by the Government of India. These proposals had not in fact been put forward a moment too soon, for a wholly unexpected revival of the Burma rice trade in September, coinciding with the heavy jute demand of that season, caused for some days hardly less anxiety than that experienced in the preceding April.

This scheme, which brought the currency system into substantially its present shape, admirably harmonized practical and theoretical requirements. *Significance of the foregoing scheme.* In practice, the appropriation of profits on coinage to a special gold reserve was an effective method of securing stability; theoretically, it was essential to automatic action. A currency is automatic if its volume is determined solely by the action of trade. That is to say, trade must be able without restriction to import gold; to convert it into the form of legal tender required for internal use; to reconvert it; and finally to re-export it. The second and third are the only steps to be considered in the present connection. They require, in India, the intervention of the Government as money changers, because at present rupees alone satisfy the needs of internal trade. From this circumstance two further conditions arise, if the automatic element is to be preserved. First, the procedure by which the Government arrange for the interchange of money must be such as to permit the action of trade to produce its exact intended effect; second, the Government must at all times maintain a sufficient stock of the different forms of money required. The result of the reservation of profits was that the Government passed into circulation only the exact legal equivalent of the sums tendered to them—fifteen rupees for every sovereign—just as in England the Bank issues a five pound note for five sovereigns, and keeps the latter entirely out of circulation till the note is returned. It will not be denied, from a currency point of view, that such a procedure is strictly automatic and mechanical. The automatic expansion of *credit*, which is assisted by fiduciary issues, is a matter of banking. The currency system does not aim at supplying the market with loanable capital. All it purports to do is to place on the market any medium of exchange which is demanded, in the exact amounts which trade is willing to purchase by the tender of another medium of exchange.

The second condition—that adequate stocks must be maintained—indicates the true character of the question of rupee coinage. So long as the stocks of gold and silver are never actually exhausted, it makes no difference to the effective volume of the currency whether the Government as money changers hold in their bills a crore of rupees or twenty crores, just as it makes no difference whether the Bank of England prints off its paper notes in large quantities twelve months beforehand or from week to week as required. No more and no less will get into circulation. The coinage question is only important because of the practical risk of running short of rupees through miscalculation, or of unduly depleting the gold stock through premature silver coinage.

These theoretical points deserve attention, for they have influenced the Government policy and the public attitude in the past. But they are now removed from the plane on which they rested in 1898. It is no longer necessary to discuss the much disputed effect of arbitrary additions to or withdrawals from the currency. The Government are able to show that they do not operate upon the volume of the currency at all, except as the passive instrument of trade, and their policy needs no further theoretical defence.

While, however, these measures created a practically perfect example of a nominally “managed” but really automatic system, they did nothing to facilitate the passage to an effective gold currency. *Withdrawal of active measures for hastening the establishment of a gold currency.* Indeed, by providing for the

continuous conversion of surplus gold into silver, their tendency was rather to postpone progress in that direction. The question of popularising gold was not overlooked, but on the contrary very anxiously and fully considered. It will be remembered that the first offers of gold to the public, in January 1900, were followed up by more vigorous action in March. The whole question was again exhaustively examined in June, by which time as already mentioned £1½ millions of sovereigns were estimated to be in circulation. A number of suggestions were put forward both for new measures and for the extension of those already in force. But as the proposals for a Gold Reserve Fund were under examination at the same time, the Council decided in September 1900 that no further efforts to press the circulation of gold should then be made, but that the matter should be reconsidered the following year, by which time full reports on the operation of the steps already taken were to be obtained.

These reports were voluminous and interesting. They made it clear that a great proportion of the gold issued had promptly come back to the Banks or the Paper Currency Department. Though the estimated amount remaining in the hands of the public at the end of February 1901 was over £3,000,000 not much of this seemed to be really circulating, visibly and actively. On the other hand, the offer of gold at a great number of treasuries had not excited an open eager demand for hoarding purposes ; and if progress in the establishment of a genuine circulation was not rapid, there was at least reason to anticipate from the results already achieved that gold would ultimately find a place in the circulating currency, though never perhaps a very prominent one. The low value currency note, which fills the place that gold would naturally occupy, was indicated as one of the chief impediments to success. There was, too, a consensus of opinion that the only really effective method of popularising gold was to make it freely convertible into silver all over the country. This however meant a large permanent increase in the Government's working balances, especially as the offer of unlimited facilities for the exchange of sovereigns into silver would lead to the extensive use of gold for remittance purposes. There were in fact signs that this device was already coming into use, and measures had to be taken to prevent resort to the parcel post for the remittance of gold, in preference to the ordinary banking agencies, with which the low postal rates were found to compete.

On this information the question was again debated in May 1901. It was clear that the circulation could not become effective for a long time. While the stock of gold was being dissipated in small payments all over India, it might at any time have to sustain the whole weight of a trade demand for export. No relief could be expected from the process well known in European countries by which the Banks collect gold from the circulation, so naturally and imperceptibly as to excite neither comment nor alarm. In this connection it was pointed out that the large issues to the public under the orders of March 1900, together with the enormous purchases of silver, had already reduced the gold in the currency reserve below the sum of £7,000,000, and it was a question whether the measures for putting gold into circulation should not be curtailed rather than extended. On the other hand, there was the express mandate of the Currency Committee which could hardly be held indefinitely in suspense. Moreover, the policy of a gold currency which had commended itself to the Committee was one to which every responsible Indian authority had expressed his personal adherence. In pursuance of this view the Government had openly embarked on a system of semi-compulsory payments in gold. To draw back might give a

shock to the credit of gold from which it might not easily recover when the time at last came for renewed efforts. In any case there were strong objections to perpetual changes in dealing with so delicate a question as the currency problem.

The decision of the Council on these opposing considerations was in favour of partial withdrawal. The instructions requiring the Presidency Banks to make payments on Government account in gold were rescinded in June 1901 ; as also the similar orders regarding the payment of money orders. The Paper Currency Department was also directed to discontinue the practice of specially offering sovereigns in the encashment of notes. A little later the Comptroller General was instructed not to send further supplies of gold to the treasuries as long as the quantity in the currency reserve was below £5,000,000. In practice, however, gold has continued to be obtainable by those who prefer it, and several millions have been voluntarily taken since these orders were issued.

In connection with the general question of a gold currency with the sovereign in ordinary use, the Government of India also considered various suggestions for the coinage and circulation of other gold coins better adapted to Indian requirements. Thus the Secretary of State was asked\* to sanction the coinage of a special Indian sovereign with an inscription round the rim instead of the usual milling which was thought to lend itself to sweating. This proposal was negatived. The half-sovereign was made legal tender in 1899 like other gold coins issued from the Royal Mint or its branches ; but the Government did not at that time propose† to coin it themselves, nor did they desire to see it in circulation, owing to the rapidity with which it loses weight by wear. This defect is of course common to all small gold coins. But the difficulties with the currency reserve in the early part of 1900, and the somewhat disappointing result of the attempts to put sovereigns into circulation at that time, seemed to indicate that the importance of the general objection to small coins might have been over-rated. The move came from the Secretary of State who asked‡ the opinion of the Government in May 1900 on a suggestion to coin gold pieces of three or five rupees, "to make the use of gold coins more popular, and especially among the class of people for whom a coin valued at Rs. 15 is an unduly large unit."

*Proposed coinage of small gold pieces.*

The proposal was referred to Local Governments and commercial authorities, and an interesting variety of fact and opinion was elicited. The weight of evidence was decidedly against either coin.§ It appeared that for some years past there had been a regular importation of five-franc pieces into several provinces for use as ornaments or for presentation purposes, and no doubt the proposed five-rupee coin might have achieved a similar popularity. It was even possible that it might eventually be used as money, since in the early part of the 19th century small gold coins had circulated freely in Madras, Mysore and Coorg. But such coins were open to serious practical objections (such as the liability to be lost, counterfeited or sweated), and were not at all certain to come into use as money in a materially shorter time than the sovereign ; even if they were freely used they could hardly be reached either by the Government or by the natural operations of trade when gold was required for export ; nor would they be suitable for that purpose. No one would export small gold pieces, reduced in weight, as such coins generally are, at their bullion value, when he could exchange them with the Government

\* Desp. to Secretary of State, No. 145, d. 10th May 1900.

† Desps. to Secretary of State, No. 346, d. 5th October 1899 (Part III, page 38), and No. 54, d. 22nd February 1900.

‡ Desp. from Secretary of State, No. 84, d. 24th May 1900.

§ Desp. to Secretary of State, No. 331, d. 4th October 1900 (Part III, page 42).

for full weight sovereigns at their face value. Thus the Government stock of gold would be dissipated and the uniformity of their gold coinage with that of Great Britain and her other possessions abandoned to no purpose. The proposal to coin three and five-rupee pieces was therefore dropped. The Government at the same time reconsidered and maintained their resolution not to encourage the use of the half-sovereign; and they refrained from taking up a suggestion for the coinage of ten-rupee pieces. When it had become clear that a Branch of the Royal Mint would not after all be established in India, the Government again took up the question of coining a special gold piece for India of the value of ten, fifteen, or even twenty rupees, but with the same result. For the present it may be taken as settled that if India ever has an effective gold currency it will consist of sovereigns only, unless the half-sovereign, being legal tender, succeeds in working its way into favour on its own merits.

*Abandonment of  
the proposed gold  
mint.*

The allusion just made to the decision not to coin sovereigns in India requires further explanation. The Currency Committee had expressly recommended that "the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian Branches of the Royal Mint". This recommendation was at once accepted by the Secretary of State and by the Government of India. In their despatch\* on the Committee's report the Government proposed to use the Bombay Mint for the purpose. This required the issue of a proclamation by the Home Government under the English Coinage Act, declaring the Bombay Mint a Branch of the Royal Mint. It was found however that there were "various legal and technical difficulties†" to be settled of an unexpected and disconcerting kind. These led to two years of discussion and negotiation at the end of which every point in issue between the Government of India, the English Treasury, and the Royal Mint was again being debated *de novo*, and finally the proposal was dropped.‡ This disappointing result has probably involved no real injury to the currency system. In the special circumstances of 1899 the declared intention of the Government to coin sovereigns was calculated, and did no doubt actually help, to inspire confidence. But by the time that intention was abandoned, confidence was assured, and it was also notorious that the imported sovereigns were already far more than the gold circulation could absorb. It is anomalous perhaps that India with two mints actually at work, and claiming with justice to possess a sound currency system, should have no open mint. But the defect is somewhat sentimental. An "open mint" merely supplies an agency for the prompt and unrestricted conversion or exchange of bullion into the corresponding amount of coined money. This facility is already provided by the Indian Government, though the actual operations of gold coinage are conducted in England and at England's expense.

*Attitude of trade  
towards the gold  
standard. Form-  
ation of a silver  
reserve.*

These decisions somewhat narrowed the immediate aims of currency policy. But by concentration on two objects—the formation of a strong gold reserve and the timely provision of silver coin—there was certainly a gain in efficiency; and the administration of the currency in the last few years has proceeded with comparative smoothness. It has naturally, however, taken some time for the commercial public to realize the increased precision and certainty of the arrangements for meeting their demands, and until quite recently a falling rupee balance still caused apprehension. The Bengal Chamber of Commerce at

\* Desp. to Secretary of State, No. 801, d. 24th August 1899 (Part III, page 3).

† Telegram from Secretary of State, d. 1st September 1899.

‡ Desp. to Secretary of State, No. 385, d. 25th December 1902 (Part III, page 41).

Calcutta and the Upper India Chamber at Cawnpore have on several occasions approached the Government with suggestions on this subject. The special difficulties of the community which the latter body represents will be relieved by the removal\* of the Paper Currency Office from Allahabad to Cawnpore. As regards trade generally, it is no doubt true that some real though temporary inconvenience was experienced in the early stages. But the feeling of anxiety which continued to reappear every busy season was mainly due to imperfect knowledge. The policy of the Government was explained by Sir Edward Law in an interview with representatives of the Exchange Banks in January 1904 and after correspondence with the Chambers, was again defined for public information in a letter† of the 25th June 1904. In these and similar ways a better understanding has been brought about; and it is significant that in the most recent expression of representative commercial opinion, the attention of the Government was directed not to defects in the supply of silver but to the supposed inadequacy of the stock of gold coin held in India—an apprehension which the Government had no difficulty in meeting. To this change of opinion the formation of a silver reserve in 1904 has no doubt contributed more effectually than verbal explanations, for it has secured the Government's position at what was unquestionably a weak point. Under this scheme‡ a special reserve of silver bullion is maintained at the mints, melted, alligated, assayed, and cast into ingots, and so ready for immediate coinage in the event of sudden pressure. This stock, which is large enough to supply three crores of coined rupees, is kept quite apart from other bullion and is not available for ordinary requirements. The Government continue to add to the rupee coinage without regard to the existence of the reserve, and intend only to draw on it on the occurrence of a sudden emergency when the usual arrangements prove inadequate. The Gold Reserve Fund serves as a visible safeguard against a drain of gold. The silver reserve offers much the same security against a drain of rupees. As long as it remains untouched, the public have the assurance that danger point has not been approached.

This measure has been followed by further arrangements for systematizing and simplifying the supply of silver. It has been decided§ in the first place to transfer to London £5 millions of the gold coin and bullion now held in India. The gold so transferred will continue as at present to form part of the currency reserve; but the establishment of a currency chest in London will enable the Secretary of State to buy silver without giving the forewarning to the market which was entailed by the previous system of making separate remittances for each purchase; and it also affords a method, which might in certain circumstances be very useful, of speedily replenishing the Secretary of State's balances in England, since he can at any time draw upon his currency gold for Treasury payments against a simultaneous transfer from Treasury balances to the Currency Reserve in India. When utilized for either of these purposes the funds in the currency chest will be replenished, as may be convenient, by the sale of Council Bills or by further shipments of gold. An analogous system has long been in force in India, and has been criticized as involving the use of currency funds for a purpose which in some degree detracts from their efficiency as a reserve against the note issue. But in the case of gold this criticism does not hold, for when located in London it is actually one stage nearer the point at which it becomes effective for the encashment of notes.

*Establishment of a currency chest in London. Arrangements for the systematic purchase of silver.*

\* Desps. to Secretary of State, No. 146, d. 28th May 1903 (Part III, page 57), and No. 389, d. 20th October 1904.

† Letter to Bengal Chamber of Commerce, No. 4021-A., d. 25th June 1904 (Part III, page 35).

‡ Desp. to Secretary of State, No. 121, d. 28th April 1904 (Part III, page 29).

§ Desp. to Secretary of State, No. 236, d. 29th June 1905 (Part III, page 31).



The last development to be noticed in an account of the currency machinery and its working is the adoption of a system of continuous purchases of silver. Experience has now shown that in any ordinary year undisturbed by war or famine, the Government of India must coin rupees to the bullion value of several million sterling. If the demand declines in one year it revives in the next, and silver obtained in anticipation of the normal demand is sure to be speedily utilized. It has accordingly been decided\* to purchase regularly throughout the year, the actual amounts being settled every quarter in consultation with the Secretary of State. The supply of rupees will thus be more adequately secured; the inconvenience and loss arising from emergent purchases in a possibly unfavourable market will be avoided; and the mints, which in the past were sometimes idle and at others working at extreme pressure, will now be kept continuously employed.

*Gold Note Act  
and sale of Tele-  
graphic Transfers.  
The tendencies of  
currency policy.*

The system of currency regulation, as established in 1900 and developed and improved in 1904 and 1905, is one which places the whole rupee resources of the Government at the disposal of trade, and enables the market to place itself in funds with no more delay than is involved in sending bills or shipping gold to India. It has been frequently claimed that the Government should advance one step further, and remove the time element altogether by lending their rupees directly to the Indian Banks or selling telegraphic transfers to an unlimited extent at a fixed maximum rate. So far as trade is concerned the two proposals are practically identical, the essential point in both being that the market should be enabled to finance itself on the narrowest margin by the assurance that in emergency it can get funds at a moment's notice. From the Government's point of view it is obvious that loans from the currency reserve are out of the question; and though loans from the treasury balances are permitted† under certain published conditions, they cannot in practice be conveniently given unless the Government restrict their large voluntary deposits with the Presidency Banks or the sale of bills. The case of telegraphic transfers is somewhat different, for they form part of the Government's remittances, and, as a substitute for gold imports, they relieve the Government of the expense of shipping gold to England. The limits on the Secretary of State's drawings have been widely extended by recent changes. Till 1898 they were restricted to the sums available in the treasury balances. The monetary stringency of that year led the Government to introduce the "Gold Note Act‡" which enabled bills and transfers to be drawn against the paper currency reserve as well, the gold deposited with the Secretary of State taking the place of rupees in the currency reserve. Larger but still limited resources were thus placed at the disposal of trade. The scheme of 1900 removed this limit by providing for the continuous conversion of gold into rupees, the silver balance being thus replenished as fast as it was exhausted. The obstacle to the unlimited sale of transfers which now remains is that it would leave the Government without any notice of impending demands. The outcry and consternation which ensued in 1900 when the Secretary of State unexpectedly modified§ an undertaking to sell transfers at a fixed rate "until further notice" showed how quickly a custom hardens into an obligation; and the Government were afterwards very explicit in repudiating|| any such obligation. This position

\* Desp. to Secretary of State, No. 143, d. 27th April 1905 (Part III, page 39).

† Desp. from Secretary of State, No. 87, d. 4th May 1899.

‡ Act II of 1898, in force for six months only; prolonged for two years by Act VIII of 1898, and again for two years by Act VIII of 1900; and finally made permanent by Act IX of 1902.

§ Desp. from Secretary of State, No. 29, d. 1st March 1900.

|| e.g., paras. 32-33, Financial Statement, 1900-01, and letter to Bombay Chamber of Commerce, No. 3290-A, d. 28th June 1900 (Part III, page 37).

was reaffirmed in the discussion\* with the Exchange Banks and the Chambers of Commerce in 1904. The Government did indeed propose†, for the guidance of tenderers, that the difference of rate for bills and transfers should be announced on the day of allotment, but this suggestion was negatived by the Secretary of State. There is too a decided tendency‡ to draw more freely in the busy season. But the unlimited sale of transfers is still beyond the range of accepted policy.

The question is important because it indicates what at first sight seems a natural line of development for the existing system to take. The Secretary of State's sterling requirements, the Government of India's balances, and the trade demand for remittance each suggest a logical limit to the annual drawings. But under the new system the first two have ceased to have any significance, and only the third limit remains, unless the line is to be arbitrarily drawn. The practical impediment to an undefined undertaking in regard to transfers has already been indicated. There is also the objection of principle that unlimited sales would mean the deliberate acceptance of what is essentially a banking function and not a mere incident of a State-managed currency system. This is very clearly seen in the suggestion of one bank that the Government should discount their own Council Bills on their way out from England, and in the express contention § of a Chamber of Commerce that the Government in India "practically take the place of the Bank of England at home" and should regulate their procedure accordingly.

The success achieved in the establishment of the present currency system is the more remarkable when contrasted with previous disappointments. The sudden revolution in the conditions of the problem from 1893-99 onwards is not completely explained by the course of trade. The last few years are certainly marked by rapid development, but from 1898-99 to 1900-01, the period in which the gold standard may be said to have been established, the volume of trade was not abnormally large. The export figures (for merchandise) and the excess of exports over imports (also for merchandise) were appreciably larger than in the famine years 1896-97 and 1897-98, but were not more favourable than the figures for 1895-96 and 1894-95. The result is much the same if Council drafts are deducted in obtaining the balance of trade which is neutralized or adjusted by private remittances from India and imports of treasure. The steadiness with which exchange has borne the recent enormous additions to the currency seems to negative the idea that changes in the volume of the circulation have been a predominant factor, nor does the course of prices lend consistent support to this theory. The famine of 1900 no doubt goes far to account for the large import of gold in that year by which the market was tided over a time of exceptional strain with a bank rate never higher than 8 per cent. But similar conditions in 1897-98 caused a state of extreme stringency, the severity of which even the bank rate of 11 and 12 per cent. fails adequately to portray. The broad conclusion to which the trade and currency figures seem to point is that the conditions required for stability of exchange at 16d. were never very far off from the first. The closure of the mints was undoubtedly an essential preliminary to all the later results. But confidence seems to have been the most potent influence in determining whether these results should

*Influences which contributed to the successful establishment of the currency system.*

\* Letter to Bengal Chamber of Commerce, No. 4021-A., d. 25th June 1904 (Part III, page 35).

† Desp. to Secretary of State, No. 81, d. 26th March 1903.

‡ Desp. to Secretary of State, No. 264, d. 21st July 1904 (Part III, page 90).

§ Letter from Bengal Chamber of Commerce, No. 320, dated 24th February 1904.



be speedily attained or indefinitely deferred. It is this fact which explains the proposals put forward by Lord Elgin's Government in 1898, and attaches a crucial importance to the first steps taken by Lord Curzon's Government in 1899. As shown in the Financial Statement of 1900-01, the Government were not supported by the unanimous voice of public opinion in giving immediate effect to the recommendations of the Currency Committee. They were in fact pressed to hold their hands. It was supposed that gold, as soon as it was made legal tender, would "disappear like rain into the sea." When a few weeks later the financial prospect was again overshadowed by famine, the time selected for the final effort was represented as peculiarly unpropitious. These counsels of timidity were fortunately rejected. It seems clear that if they had been followed and the Government had deferred action to some more favourable season, there would have been a revival of distrust, which in spite of trade conditions might have postponed the establishment of a gold standard for a further period of years.

*Gold standard statistics:—*

(i) *Aggregate sum received by Government. (£47 millions.)*

(ii) *Amount put into circulation. (£9½ millions.)*

(iii) *Amount expended on rupee coinage. (£16½ millions.)*

(iv) *Amount passed into the gold reserve fund. (£8 millions.)*

(v) *Amount held in the currency reserve. (£10½ millions.)*

(vi) *Amount remitted by Government to support exchange. (£1 million.)*

A glance at the gold statistics will show how completely the Government's confidence has been justified. Up to March 1899 they had received £ 2,008,979 worth of gold (tendered almost wholly in the first three months of 1899) and had issued none. The following figures relate to the six completed years included in Lord Curzon's Viceroyalty, from April 1899 to March 1905. In this period the total amount of gold received by the Government in India has been £47,029,954. The maximum receipts of any year were £ 10 millions in 1900-01 and 1904-05 and the minimum about £ 5 millions in 1901-02. The great range of fluctuation explains the practical difficulty of keeping pace with the demand for conversion. These sums include the receipts from circulation as well as direct tenders of imported gold, any exact discrimination between the two being impossible. Out of the whole amount received it is estimated that at the end of March 1905 £9½ millions was in the hands of the public, either circulating, hoarded, or melted; but the estimate contains elements of much uncertainty. The total payments for the purchase of silver in England and India in the six years were equivalent to £16,311,964.\* The number of rupees minted in that period was Rs. 61,72,43,005 or, excluding recoinage and coinage for Native States, about Rs. 35 crores, the latter sum representing more than one-fourth of the estimated rupee circulation of 1893 (Rs. 125 to Rs. 130 crores). Profits on coinage amounting to £8,109,898 net were passed into the gold reserve fund, which with accumulated interest amounted on the 31st March 1905 to £8,528,631. The bulk of this sum is invested in Consols. At the same time the Government held £10,740,139 in the paper currency reserve. The total of these two sums (£19,268,770) represents the stock of gold, accumulated without borrowing, from which a drain of rupees could be met. There has been no formal decision as to the total amount of gold required for a permanent reserve. The inclination at one time was to aim at accumulating £20 millions in the gold reserve fund and the currency reserve together, but it is evident that this limit will be passed before any change is made in the present methods. There has so far been no experience of a demand for gold on anything like the scale for which the existing stocks provide. The Government have only twice found it desirable (once in July 1901 and again in May 1902) to use their reserve to support exchange. On each occasion they remitted £500,000 in gold in place of selling Council Bills through the Secretary of State. When the

\* Including £1,259,000 expended on the purchase of three crores of tolas of standard silver for the ingot reserve.

transactions of the export season have been adjusted, there is of course a natural tendency for exchange to tend towards the lower specie point, and the occasional use of the stock of gold for remittance purposes need not surgest any anxiety. It is impossible to give precise figures for the demand for private export, but the customs returns indicate an average export of less than half a million yearly excluding the exported produce of the Indian mines which is valued at about £2½ millions a year. There has thus been a natural and unrestricted movement of gold without any extraordinary exhaustion of the reserve.\* Finally it must be added that this enormous influx of gold has been consistent with the sale of Council Bills and transfers to an unprecedented amount and the maintenance of a singularly equable rate of exchange. The Secretary of State's drawings in the six years have totalled £117,691,175, or an annual average of £19½ millions as against an average of £15½ millions in the preceding quinquennium; and the bills were sold at prices ranging between a minimum of 15½<sup>7</sup>/<sub>8</sub>d. in July 1901 and a maximum of 16<sup>5</sup>/<sub>8</sub>d. in January 1900, the lowest average rate for a whole year being 15·973 in 1900-01 and the highest 16·067 in 1899-00.

(vii) *Private exports.*  
(£2½ mil lions.)

(viii) *Sale of Council Bills and rate of exchange.*

These figures complete the data by which the success and prospects of the currency policy can be measured. The objects which Lord Curzon's Government had before them in 1899 were defined in an early paragraph as being: first, stability of exchange; second, an automatic currency; and third, a gold currency dissociated from Government control. The experience of the last six or seven years supplies the strongest evidence that the first of these objects has been secured. The maximum fluctuations just given correspond to a premium of about 4½d. in the £ and a discount of about 2½d., and they are extreme limits seldom approached. The exchange between London and India might indeed be quoted with reference to the £ sterling on both sides, for this has now become the effective as well as the theoretical unit of Indian currency. Looking behind these and the other figures to the forces which determine the permanent trend of exchange, there is no less reason for satisfaction. The growth of the export trade is increasing the balance in India's favour, and there are signs of a probable development of industry which will tell more and more strongly in this direction. There appears, too, to be some tendency for the distinction between the busy and the slack season to become less marked, and the greater steadiness of the discount rate since exchange was fixed will itself tend to prevent those violent reactions from which the exchange policy has most to fear. The experimental circulation of gold, if it has not been an immediate success, at any rate mitigates the apprehension that gold will be greedily absorbed in unlimited quantities without hope of recovery. It is quite conceivable that the habits of the people may change in this respect, but so far there is no definite indication that it will be perilous as well as difficult to establish an effective gold currency. Finally, the currency system has the conspicuous merit that it does not contain within itself the elements of disturbance and failure. In spite of some artificiality of form it is essentially natural in its operation.

*Conclusion:—*

(i) *The stability of the currency system.*

Among the causes which might conceivably involve a merely temporary break-down, the most obvious is the irregular demand for rupees. This question has already been fully discussed, and actual experience and the reasonable

\* The figures given for the issues and expenditure connected with the gold standard do not work up exactly to the sum received. A portion of the payments for silver and of the credits to the gold reserve fund has been remitted by bills or found by the Secretary of State from gold paid to him under the Gold Note Act; and the receipts, as noted above, include an undetermined amount received from circulation, possibly many times over.

precautions taken seem to indicate that the difficulty can now be always met under ordinary circumstances. The greatest drain of rupees in any one month since April 1900 has been Rs. 382 lakhs, or £2,546,000, and in any four consecutive months (the duration of the busy season), Rs. 883 lakhs or £ 5,889,000. Against such a drain the silver reserve and the strong balance with which the Government arrange to begin the busy season should afford ample security. But there is of course the paper currency to be reckoned with. A run on the rupee reserve by the genuine note-holders coinciding with heavy tenders of imported gold might cause embarrassment. The experience of over forty years is however held to indicate that this contingency is not a probable one. It may be added that while the market demand for rupees has in practice to be met in the form of legal tender required for actual use, it should be sufficient, in the case of a panic affecting the credit of paper, to offer gold in exchange.

The existing conditions would be appreciably modified by unconditional facilities for remittance, or any other measure which brought India into closer contact with the London money market, and so attracted short-term capital more freely to this country. Some such result might possibly be anticipated from the grant to the Presidency Banks of power to borrow in London which the Government of India have more than once recommended.\* But it may be hoped that if this power be conceded they will be able to give more assistance in forecasting the probable requirements of the market than the Government have hitherto received from any section of the community. To quote the warning conveyed by Sir Edward Law in his last Financial Statement†: "it is impossible to admit the direct responsibility of Government to immediately and in all circumstances meet abnormal demands. Government have the right to expect that those who make a special business and derive a profit from financing the trade of the country will consider beforehand what are likely to be their requirements and make due preparation."

There seems as yet to be no special danger of a temporary exhaustion of the gold reserve. The methods of the Gold Note Act have not been applied to the converse case of remittance from India to England. It is hardly possible, therefore, that India can yet be called upon to play her part as a gold standard country in supporting the markets of other gold countries in times of pressure. But it is interesting to note as a foreshadowing of future developments that the Secretary of State has on one occasion been approached with a proposal of this nature.

(ii) *The currency system an automatic system.*

The next question is whether the currency system is automatic. It has already been shown that, considered by itself, it is absolutely automatic as regards the import of gold and additions to the rupee coinage. It is also obvious that it has so far, in the absence of any serious drain of gold, been equally automatic as regards the retiring of rupees and the export of gold. There are very few countries, perhaps none at all, which oppose no obstacle direct or indirect to the continued depletion of their gold reserves. The Government here are so closely concerned with the management of the currency that it will be difficult to devise any method of checking exports which the public will support; and this difficulty will increase when gold comes into active use and the public become accustomed to obtaining it freely

\* Desp. to Secretary of State, No. 351, d. 19th October 1905 (Part III, page 95).

† Paragraph 24, Financial Statement, 1904-05.

in exchange for notes. The universal and legitimate practice of raising the discount rate, apart from its being one which a Government could not employ, is altogether inapplicable to the conditions in which gold would flow out in the slack season. It may be questioned whether India will always be able to dispense with safeguards which other countries find essential. But the complete freedom of the present system must be admitted as an element in its favour from the present standpoint.

Hitherto the only direct interference with the natural action of trade on the currency has been the checking of imports of bullion by the rule postponing payment for 60 days. This was a temporary expedient adopted under great pressure in the initial stage. The limit of 30 days since substituted corresponds more closely to the period which would elapse between the tender of bullion and its return in coin to the tenderer if an Indian Mint had been established. On such points the currency policy cannot be seriously questioned. Active criticism centres around the refusal of the Government to accept certain indefinite obligations in their other relations with trade. But the management of the public balances and of remittance operations, though intimately connected with the monetary system, is not a part of it, and as already stated involves other than purely currency considerations.

Such difficulties however make it all the more desirable for the Government to sever their intimate connection with the currency system by passing on to an effective gold currency. As mentioned above, it was never expected that this end could be quickly attained. But what was practicable has been done. While the Government have been building up the reserve which they require as a precedent to active efforts in this direction the people have become accustomed to the use and sight of the sovereign. Though there has not for several years past been any attempt to press it upon them, they have taken over £9 millions from the Government, and probably something more from other channels. The high value of gold is evidently not preventing its use altogether. But the most difficult part of the question remains unsettled. There is no certainty as to whether the sovereign is actively circulated, hoarded or melted. A final answer can hardly perhaps be expected till gold has been issued in much larger quantities. But there are certainly indications that it is regarded as a useful form of currency in particular parts of India, and it may be expected that a few provinces will lead the way and the others ultimately follow. The question also arises whether, when a moderate amount is in circulation, the banking system will be able to draw it up to commercial centres by the methods employed in other countries when gold is required for export; or, if not, whether the banks will ordinarily maintain strong gold reserves of their own and so lighten the responsibility which now falls upon the Government. It is obvious that the answer to this question must for a long time be negative; indeed, as long as the Government are prepared to supply all the gold required for export, there is little inducement for the Banks to obtain it by more laborious methods.

But though progress in this direction may still be slow, there can now be no question that the practical end has been achieved, and achieved under a system in many respects suited to the present needs and preferences of trade and the people. The words\* which Sir Clinton Dawkins felt able to use in March 1900 may now be repeated with far greater

(iii) *Progress towards a gold currency.*

(iv) *Results of the establishment of a gold standard.*

\* Paragraph 25, Financial Statement, 1900-01.

assurance : "India has at length emerged from a period of transition, has reached the goal to which she has been struggling for years, has established a gold standard and a gold currency, and has attained that practical fixity in exchange which has brought relief alike to the private individual and to the Government finances." Some portion of the relief to the Government may be roughly measured by considering the remittances of the last six years, and remembering that India has had actual experience of a rate of very little over one shilling. The ease and certainty which the gold standard has brought to the finances have enabled the Government to forego £2 $\frac{3}{4}$  millions of taxation; to enter into more liberal and permanent arrangements for the ordinary civil administration; to accept vast recurrent outlay entailed by the recommendations of the Irrigation Commission and the scheme of Army redistribution and reorganisation; and to undertake the much needed reform of departments like those of Police and Education where heavy expenditure is an absolute condition of substantial improvement. The gold standard has also made it safe to pursue an increasingly active railway policy, and so prepare the country to take advantage of the stimulus which a fixed exchange is imparting to commerce. It is too early yet for the full force of this impulse to have been exerted, and the industrial awakening to which many indications point lies in the near future rather than the immediate present. But the improved conditions of the money market throughout the last seven years, and the recent expansion of foreign trade, show that a beginning has been made. This, though it be the last, may ultimately prove the most far-reaching result of currency reform.

### CHAPTER III.—PAPER CURRENCY, BANKING, AND RAILWAY AND IRRIGATION FINANCE.

The reform of the currency system naturally reopened other financial questions, and particularly those which lie on the path of industrial progress. The altered conditions of trade and finance emphasized old defects and created new needs, which could only be supplied by the Government or with their co-operation. The whole system of money and credit has thus been brought under review; and though some of the many questions raised are still unsettled, substantial progress has been made in regard to the most pressing.

*Introductory.*

The first of these questions is that of currency reform\* in Native States. This problem reproduces in miniature most of the features of the Government of India's own exchange difficulty. During the last five years Baroda, Jodhpur, Indore and many smaller States have followed the example set by Kashmir and Bhopal in closing their mints and accepting the British rupee; and have thus obtained for themselves the financial and commercial advantages of a fixed standard of value. The movement in this direction was started by famine, which seriously depreciated the local currencies, but the final step would not have been taken but for the specially liberal terms† offered by the Government, and the assistance and advice by which the States were enabled to overcome the numerous practical difficulties incidental to conversion operations. Hyderabad still retains its own currency. This State is large enough to withstand the influences which tell so rapidly and disastrously in smaller areas, and it is possible that it may be able to maintain an exchange system for keeping the Hali Sicca rupee at par with the British rupee, by methods analogous to those followed by the Indian Government in linking the British rupee to the sovereign.

*Currency reform in Native States.*

The exigencies of the gold standard system, as well as the interests of trade, led the Government to seek some means of popularizing their note issue and extending its circulation. It was anticipated that if the facilities for encashment could be largely increased, notes would ultimately pass more readily as money and be less frequently presented. But such facilities were certain in the first instance to involve a greater strain on the reserve, and might throw upon the Government a large part of the cost of internal trade remittances. Though recognizing the need for caution, the Government thought the question was one to be ventilated, and a circular‡ was issued in October 1900, inviting the suggestions of commercial authorities. For the most part the replies merely emphasized the reality of the objections which the Government had already foreseen. But after some further discussion with representatives of banking and commerce, the following definite proposals were finally approved and submitted§ to the Secretary of State: (i) the five-rupee note (and if the experiment was successful the ten-rupee note also) was to be made legal tender throughout India excluding Burma, and payable at all currency offices in the same area; (ii) to prevent the use of the universal note for remittance purposes, its despatch by post was to be prohibited, and the encashment of halved notes restricted; (iii) the provision of law making sub-circle notes payable at a principal office was to be repealed; (iv) to compensate trade for the loss of this advantage the Government were to provide transfers at low rates between the

*Changes in the paper currency system:*

*(i) Universal rupee note.*

\* A more complete examination of this question will be found in Part II, Chapter II.

† e.g., Foreign Department letters to Resident at Baroda, No. 1937-I. A., d. 4th May 1900 (Part III, page 245), and No. 2944-I. A., d. 7th July 1900 (Part III, page 247).

‡ Letter to Chambers of Commerce and Presidency Banks, No. 5426-A., d. 26th October 1900 (Part III, page 47).

§ Despatch to Secretary of State, No. 102, d. 27th March 1902 (Part III, page 50).



present sub-circle offices and the connected Presidency towns ; and (v) a proposal of the Bank of Bengal to issue local notes which should be legal tender and payable only at the town of issue was to be experimentally adopted at a few selected commercial centres. All these proposals except the second and the last were accepted\* by the Secretary of State, and an Act† was passed making the five-rupee note universal, a measure which involved some changes in its unsatisfactory shape and design. But as exception was taken to the withdrawal of the special privilege attaching to sub-circle notes, this amendment was postponed pending reference to Local Governments and Chambers of Commerce who were addressed‡ on the subject in May 1903. Their replies showed that the privilege was valued by the commercial community, and, as it had been uninterruptedly enjoyed for forty years, and did not appear to involve serious expense, the idea of withdrawing it was abandoned. It was decided however to persevere with the fourth proposal, and the rates for transfers effected through the currency reserves of the principal and sub-circle offices have accordingly been fixed and reduced, a concession which is of some advantage to the Government as it appears, from the short experience already gained, to be checking the use of the five-rupee note for remittance purposes.

(ii) *Increase of  
note circulation.*

The effect of making the five-rupee note universal has been distinctly marked, the gross circulation outside Burma having increased in two years by 28 per cent. But before this measure came into operation the note circulation as a whole had again begun to show a rapid expansion, the average of 1904-05 being a little over Rs. 29 crores against Rs. 25½ crores in 1898-99. The effective circulation, obtained by deducting the notes held in the reserves of the Government and the Presidency Banks from the foregoing figures, amounted to Rs. 30¾ crores in 1904-05 against Rs. 20¾ crores in 1898-99. As a result of this improvement the Government felt able with the general support of the commercial community to recommend§ the increase of the paper currency investment, which had not been raised since 1896, from Rs. 10 crores (all held in rupee paper) to Rs. 12 crores. They also proposed that the additional Rs. 2 crores should be remitted to England and invested in sterling securities, thus enlarging the field of selection in the event of sale and maintaining a portion of the reserve at a centre where in certain contingencies the proceeds of sale might be most advantageously employed. These measures were approved by the Secretary of State and incorporated in the Indian Paper Currency Bill, which became law in March 1905 as Act III of 1905. The Government, though not at that time intending to invest more than Rs. 2 crores in sterling securities, had originally proposed to take a general power to hold the investment in either form, but the suggestion was dropped in deference to the adverse opinion of the banking and commercial community.

(iii) *Increase of  
currency invest-  
ment.*

*Banking :  
(i) Proposed  
Central Bank.*

The future of the paper currency system was also involved in the proposal to establish a central bank similar to that of England or France by amalgamating the existing Presidency Banks and increasing their capital. The scheme arose out of a doubt hazarded by the Currency Committee as to "whether banking arrangements in India might not with advantage be strengthened and adjusted to the growing requirements of Indian trade." This suggestion was enforced by Mr. Hambro, a member of the Committee, in a separate report, and by the Secretary of State and Sir Henry Fowler in the House of Commons.

\* Desp. from Secretary of State, No. 192, d. 12th December 1902.

† The Indian Paper Currency (Amendment) Act, 1903 (VI of 1903).

‡ Letter to Local Governments, No. 2886-A., d. 14th May 1903 (Part III, page 54).

§ Desp. to Secretary of State, No. 295, d. 18th August 1904 (Part III, page 59).

The practical solution of the exchange question seemed likely to encourage a readiness to invest capital in India and to open up a field for its employment with which the existing banks could not adequately deal. At the same time the currency policy was driving the Government into the assumption of functions which are ordinarily exercised by a central bank. The three Presidency Banks, though modelled on the lines of such an institution, fall somewhat short of this status in resources, authority, and privileges. They no longer enjoy the right of note issue, and though entrusted with a considerable portion of the Government balances, the concession is limited as regards amount and accompanied by somewhat harassing restrictions. Their operations are confined to India and Ceylon and thus, as at present constituted, they can take no direct part in promoting the expected flow of British capital. Their own capital, which aggregates £2,400,000, has been practically stationary for the last twenty-nine years, though substantial additions have been made to their reserves. Whether through want of resources or from external causes, they have, as a matter of fact, proved unable on some occasions to exercise an effective influence over the money market. Until the last few years conditions of stringency have been recurrent and serious, and the Government have been constantly called upon in the past for that direct assistance to trade which it is the duty of a bank of last resort to supply. Again, they are somewhat unequal in management and policy, and though three independent banks may seem to offer a triple defence, it may also be argued that in mutual reliance upon one another they are in danger of losing the sense of ultimate responsibility which is characteristic of the management of a single and final reserve; and that a system which divides India into sharply defined spheres of banking influence is not well suited to the growing solidarity of trade. At the same time the banks had rendered excellent services and were entitled to be heard on any proposal for reform. The commercial community generally were also interested, and in particular the Exchange Banks who strongly resisted\* the whole scheme.

In their despatch† on the Currency Committee's report the Government acknowledged the claims of the Presidency Banks and pointed out the advantages which the scheme of amalgamation offered to trade; and they strongly supported it as an adjunct to their currency policy:—

“There can, we think, be no question that, for the purpose of the effective maintenance of the gold standard, a bank with a large sterling capital, and constituted on the model of the Bank of England or Bank of France, would be a very powerful support to the State. Such a Bank would be better able to measure and deal with the requirements of trade for foreign remittances than any Government, and it would have the capacity, which a Government Department cannot be expected to possess, of preventing unnecessary export of gold without hampering trade. An institution of the kind would also be most effective in promoting the circulation of gold. It would, again, be an effective agent for securing an increased circulation of fiduciary money; and we might find it possible to entrust it with the management of the Government Paper Currency.”

A few days later an opportunity was taken to mention the matter in the Legislative Council which was then discussing an amendment‡ of the Presidency Banks Act empowering the Banks to deal in securities of the new Bombay City Improvement Trust. This was little more than a formal matter. But other applications for more important concessions had been simultaneously received from various quarters. Both the Viceroy and the Finance Member pointed out

\* Desp. to Secretary of State, No. 56, d. 22nd February 1900 (Part III, page 75).

† Desp. to Secretary of State, No. 301, d. 24th August 1899 (Part III, page 3).

‡ Act XX of 1899.



that any relaxation of existing restrictions must be contingent on proper guarantees for the safety of the Government deposits. But subject to this caution the Government of India cordially desired to give the Banks "ample liberty of movement." To quote the concluding words of the Viceroy's\* speech:—

"In respect of banking, it seems to me that we are behind the times. We are like some old-fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbrous compartments. This is a state of affairs which it appears to me can hardly continue. I can well believe that local interests will require to be consulted, and we must be careful to see that no injustice is done. But I cannot think that any sectional prepossessions should be allowed to stand in the way of a consolidation and concentration of banking facilities which strike me as being required in the interests of the business accommodation and credit of the country. Should we succeed in effecting any such amalgamation—should we get any such Central Bank, established on a sterling basis, giving us access to the London market—then I think we might with safety dispense with many of the existing restrictions, because we should have, on the hypothesis of a common currency with England, a permanent and stable link between the Indian and English markets."

In November 1899 the question was referred† to the Chambers of Commerce and to the Banks themselves as a matter to be considered "with special reference to the existing capital of the Banks." It was generally contended in reply that what the market required was not a permanent augmentation of banking capital, which could not be fully employed in the slack season, but a more elastic system permitting the temporary expansion of resources at times of pressure. The power of borrowing in India is of little service in a monetary crisis. It was strongly urged that the Banks should be allowed to borrow in sterling, and possibly also to take loans in emergency from the paper currency reserve—a procedure which would be analogous to the issue of uncovered notes in European countries.

This correspondence was followed by a conference held at the end of December 1899. Personal discussion revealed (so the Government of India wrote‡) "a much greater degree of agreement between the Government and the various institutions concerned, and between the various institutions themselves, than appeared from the letters." The Government accordingly felt able to treat the question as one of practical politics and to formulate their proposals in a despatch‡ to the Secretary of State. In a summary of this important document little more than the conclusions can be stated. The despatch emphasized the unanimity of the demand for an increase of banking resources in one form or another. It pointed out that an increase in other directions ought reasonably to be guaranteed by some addition to the shareholders' capital. The treasury balances were too exposed to unexpected demands to permit of the Government entering into any definite engagement to assist the market from this source. If the paper currency reserve was larger than safety demanded, the excess should be invested. The proposal to grant "access to London" suggested the apprehension that resources (largely supplied by the Government) might prove to be locked up in England when suddenly and urgently required in India. It could not therefore be regarded as a satisfactory alternative to the suggested increase of permanent capital, though it might usefully supplement that measure. The grant of this privilege to three Banks was, however, open to special objections: "It would be more difficult to follow the operations of three Banks than of a single institution; and we could not contemplate with equanimity the contingency

\* Speech delivered in the Legislative Council on 1st September 1899.

† Letter to Chambers of Commerce, No. 5123-A, d. 10th November 1899.

‡ Desp. to Secretary of State, No. 17, d. 18th January 1900 (Part III, page 67).

of three Presidency Banks, all connected with Government, competitively pledging Indian securities in the London market." Again there could be no question of transferring the management of the note issue to three separate Banks, though the transfer might become possible in the event of their amalgamation. In this connection the Government explained that amalgamation would not involve the sacrifice of local management and local knowledge, or a surrender of the rights of existing shareholders. Recurring to the question of capital, the Government observed: "We will only add, though we strongly recommend that an amalgamated Bank should be given a last resort in London under proper conditions, that such a Bank will thereby become the last resort in India, and that both the Government and the trade of India have a right to look for ample strength in such an institution. We believe that an (additional) amount of three crores, equal to two million sterling, would be sufficient to ensure stability and would have every prospect of being fully utilized in a short time." The despatch concluded with the following words:—

"We look to a control being exercised over the money market which the Presidency Banks do not pretend to have gained, to greater efficiency and to unity in the management of banking resources, to a more rapid return into the general circulation of money raised by taxation, to an accelerated development of railway and other enterprises, and to a relative steadiness in the rates of discount which would be of vital importance to sound business in this country. It is only through some comprehensive measure of this character that India may count upon reaping the full advantage, through access to London, of the currency policy upon which she has embarked."

The Secretary of State replied\* by propounding a series of questions, the effect being to postpone a decision till Sir Edward Law's arrival in India. (ii) The scheme abandoned. The latter re-examined the proposal in a minute which was forwarded† to the Secretary of State, and formed the opinion that there was no sufficient evidence of a deficiency of permanent banking capital, and that the scheme was too expensive to be recommended for the sole purpose of supporting the exchange policy. The Finance Member's final conclusions may be summed up in his own words:—

"Whilst convinced that it is unnecessary to establish a Central Bank for the assistance of trade, and unprofitable, as regards provision of assistance in connection with possible exchange difficulties, I am still of opinion that if practical difficulties could be overcome, it would be distinctly advisable to establish such a bank so as to relieve Government of present heavy responsibilities and to secure the advantages arising from the control of the banking system of a country by a solid, powerful, central institution. In India Government is to-day the chief banker. I do not think it well that Government should occupy such a position; and I am only deterred by what appear to me to be the very great practical difficulties of the situation."

The Government of India accordingly felt "regretfully compelled to advise that the scheme should be held in abeyance" although at the same time "recording their deliberate opinion that it would be distinctly advisable, if practicable, to establish a central bank" for the purposes indicated by Sir Edward Law. The Secretary of State accepted‡ this opinion but added the request that "the scheme may be revived whenever there is a probability of its being successfully carried out."

It is of interest to note the different lines of argument by which this project was supported. Primarily a central bank commended itself to the Government of India as a piece of machinery to assist the State in "the effective maintenance of the gold standard." To the commercial community

\* Desp. from Secretary of State, No. 40, d. 22nd March 1900.

† Desp. to Secretary of State, No. 199, d. 13th June 1901 (Part III, page 78).

‡ Desp. from Secretary of State, No. 131, d. 26th July 1901.

generally (who did not show themselves very keenly interested) the expectation of additional loanable capital and of a steadier discount rate was the main attraction. The three Banks had some reason to apprehend that an increase of capital would involve a diminution of dividends, and their past services and unexpired contracts with the Government placed them in a position to bargain. To them the scheme was presented as the corollary to their demand for greater freedom and particularly to their request for sterling borrowing powers. Finally, when the tendencies and results of the currency policy were better defined, it was recognized that the chief justification for the scheme lay in the necessity for relieving the Government of "its banking functions and responsibilities." As time goes on these responsibilities are not becoming lighter, and when the project is revived, in compliance with the Secretary of State's instructions, it may be anticipated that this aspect of the case will be more prominent.

(iii) *Alternative proposals.*

While abandoning the more ambitious scheme the Government thought it possible to extend the powers of the Banks by devising other safeguards. In January 1901 they requested\* the Banks to submit specific proposals as to the new facilities required. The list of demands was discussed at a conference held in December 1902 and certain provisional decisions were then formulated. After further negotiation both the Government and the Banks agreed on certain terms which were submitted† for the Secretary of State's approval in July 1904. The principal concession which the Government decided to recommend, and the only one requiring mention, was the power to borrow in London. With this privilege they associated certain precautionary conditions: the Banks were not to be allowed to borrow in sterling till the Bank rate had risen to 6 per cent.; "to prevent their borrowing operations from interfering with the arrangements for Government remittances" the Banks were to make their own remittances "in such form as may be approved by the Comptroller General in each case"; the Government were to be empowered to annul the election of auditors if the shareholders elected unsatisfactory persons; and the Banks were to be required to maintain a cash balance amounting to not less than 33 per cent. of their liabilities payable at call or within one month, any deficiency being made good by a loan from the Government or by borrowing in London.

This scheme is still under discussion. The Secretary of State while agreeing to the minor concessions has questioned‡ the practical necessity, in existing money market conditions, for the grant of increased facilities for the importation of cheap capital. He also demurs to a measure which might involve competition with the Exchange Banks, whose renewed protests he has forwarded for the Government of India's consideration. The latter regard the apprehension of unfair or even appreciable competition as chimerical; they hold that the removal of artificial restrictions which impede the flow of capital is a necessary sequel of currency reform; and consider that their proposal is essential to the maintenance of a strong and centralized banking system. They propose however to abandon the stipulation as to a minimum cash balance in view of the difficulty of enforcing a practicable penalty for default. The Secretary of State has accordingly been addressed§ in this sense and his final decision is now awaited. Meanwhile they have taken up the question of encouraging the development of branch banking in the mofassal by permitting private banks to undertake the

\* Letter to Presidency Banks, No. 474-A., d. 28th January 1901.

† Desp. to Secretary of State, No. 264, d. 21st July 1904 (Part III, page 90).

‡ Desp. from Secretary of State, No. 15, d. 3rd February 1905.

§ Desp. to Secretary of State, No. 351, d. 19th October 1905 (Part III, page 95).

Government business in places where the Presidency Banks are not yet established, and by offering the latter more favourable terms in respect of the public balances held at newly opened branches. The question is of much importance as the wide extension of European methods of banking is the most hopeful means of combating those habits of hoarding which retard industrial progress and involve a possible menace to the currency system. But the problem is one in which the Government can do comparatively little to stimulate commercial enterprise.

One object of the projected Central Bank was to dissociate Govern- *Railway Finance :*  
ment from commercial finance. A somewhat similar idea has characterized the numerous discussions on the problem of railway extension. To quote the words in which the Secretary of State summed up\* the demands of those who urged a more progressive policy :—

“The financing of the Public Works Department should be a distinct branch of State Finance: the capital borrowed for it should be set apart for its sole use; and the sums to be raised should be regulated on what is called a commercial basis, with reference to the amount required to meet necessary or desirable expenditure and without or with only a secondary regard to the general financial policy and situation of the Government. I understand that it is desired also that the money provided and set apart for railways should be at the call of the railway authorities, and that its expenditure should be freed from the restrictions of the ordinary budget rules.”

This contention was brought prominently forward in 1899 by Colonel Gardiner, then acting Member in the Public Works Department, and the Viceroy also warmly sympathized with the attempt to devise a less rigid policy. “The system under which our railways are now financed,” Lord Curzon wrote, “seems to me to be a faulty system, and to be fatal to development at the very time when development may be most needed.” In the despatch† with which this minute and others were enclosed the origin and history of this system were reviewed. Briefly the position is this:—The State owns and works a number of lines; and it owns others, but leases them to companies who work and develop them; while certain lines belong to companies who have built them with capital raised by themselves on the Secretary of State’s guarantee or with the help of a Government subsidy. The scope of useful extension is for practical purposes unbounded. The funds allotted are limited and for the most part raised by borrowing. To preserve continuity of work, and to enable the Government to adjudicate between the competing claims of the different lines, an annual forecast or programme of railway expenditure is drawn up. In this programme are included all lines for which the State, by its ownership or guarantee or otherwise, has accepted any direct or potential responsibility. Thus the demands of companies who are working paying lines and wish to borrow additional funds for rolling-stock or for new branches may have to give way in part to the requirements of lines which are only run at a loss or to completely new projects. Again, projects which have passed this ordeal and secured a place on the programme may be subsequently struck out if from famine or other causes it becomes necessary to reduce the intended expenditure. The financial reply to this complaint was that whether the Secretary of State borrows directly, or indirectly (and less economically) through companies using his credit, “there is a limit even in London to the capital which readily seeks investment in Indian securities.” Consequently the Government must limit their aggregate borrowing, direct or indirect, productive or non-productive,

(i) *Origin of programme system.*

\* Desp. from Secretary of State, No. 8, d. 4th January 1901.  
† Desp. to Secretary of State, No. 112, d. 29th March 1900 (Part III, page 103).

and commercial or administrative, to an amount which will not unduly depress the price at which their loans are floated. Control over railway remittances was also regarded at that time as scarcely less important, for the Government were finding difficulty in providing all the rupees required by importers of gold, and they were somewhat apprehensive as to the effect of the recent heavy additions to the coinage. Apart from this and whatever the sums to be borrowed, the Government must have the time and amounts settled beforehand to enable them to place the funds when and where required. In fact, to repeat Lord Curzon's phrase, the programme is a railway budget, and the whole argument a plea for "perspicuity of finance."

(ii) *Suggested modifications.*

The outcome of this examination of the existing system was that the Government as a whole felt unable at the time to recommend any radical departure from it. The Viceroy and the Public Works Member in a separate minute emphasized the temporary character of the remittance difficulty. But the only specific proposals made were to allow companies occasionally to borrow small amounts on short-term loans with the object of avoiding the temporary disbanding of establishments, and to frame future programmes on a minimum basis. If it proved that additional funds could be provided it would be easier to enlarge an unambitious programme than to cut down one which erred on other side. The Secretary of State, replying\* in January 1901, negatived the second recommendation and questioned the propriety of the first. He also discussed and again rejected an old proposal to permit the re-allotment of unexpended grants. He considered that the inconvenience of which complaint had recently been made would be mitigated by giving the first place to open line requirements and the second to lines under construction. On the general financial principles he supported the view taken in the Government of India's despatch. The real difficulties thus remained unsolved, and the Government of India after some further discussion decided that the question must be temporarily dropped.

(iii) *Formation of Railway Board.*

It was, however, soon re-opened. In 1901, Mr. Thomas Robertson, C.V.O., was deputed by the Secretary of State as Special Railway Commissioner to enquire into the administration and working of the Indian Railway system. His report which was submitted in 1903 repeated the familiar demand for independence. In regard to improvements of existing lines Mr. Robertson recommended that both guaranteed railways and companies working state lines should be "excluded from the influence and restrictions of the programme, and permitted to raise such money as they may require and as Government may sanction on the best terms obtainable; and that these transactions should be left entirely free from the exigencies of Indian finance." For the construction of new lines Mr. Robertson proposed to offer guarantees on more favourable terms, and companies were apparently to be allowed to raise capital on such guarantees without limitation by financial considerations. For Government construction and open line requirements it was suggested that the railway authorities should have an open credit of Rs. 15 crores for their annual expenditure, besides the net surplus of railway revenue.

In addressing† the Secretary of State the Government of India singled out for their immediate attention and support Mr. Robertson's proposal to create a small Board of practical railway men entrusted "with full authority to manage the railways of India on commercial principles and freed from all non-essential restrictions or needlessly inelastic rules." They next defined the financial powers

\* Desp. from Secretary of State, No. 8, d. 4th January 1901.

† Public Works Department Desp. to Secretary of State, No. 2, d. 7th January 1904 (Part III, page 125).

which were to be delegated to the new Board. They reasserted the principle that "in the last resort, all liabilities incurred are Government liabilities; Government must therefore retain control over them, and cannot afford to let other persons pledge their credit without their knowledge or to an extent of which they are unaware." They were therefore unable to accept Mr. Robertson's scheme of finance, and went on to formulate the following alternative arrangement. In the first place they undertook to pledge themselves financially for periods of three years instead of one:—

"The system that we submit for your consideration and approval, is that there should be a three years' programme both of borrowing and of construction, and that to meet it, the Secretary of State should make a three years' grant to the Board, the sum being calculated on a careful forecast, on the one hand, of the requirements both of State Railways and Companies' railways, and on the other hand of the financial prospects of the Government of India. Any amount unspent at the end of the first or second year would be added to the grant for the second and third years respectively. The Board would then have an assured supply of funds, and would be insured against fluctuations arising from the ordinary vicissitudes of finance."

Secondly, having proposed to create a Board possessing the highest professional qualifications and to entrust it with the expenditure of many millions of money, the Government of India urged that minor financial restrictions should be relaxed. "Little good will be achieved by a mere change of nomenclature, or by superficial reforms in organisation." The powers of the Government themselves were so restricted that a "generous devolution of responsibility" was impossible unless the Secretary of State set the example by a partial abdication of his own highly centralized authority. The Government accordingly asked to be empowered (under suitable conditions) to sanction the construction of Branch lines estimated to cost less than Rs. 100 lakhs, and the provision of rolling stock and other requirements of open lines; to enter into the necessary contracts with independent Branch line companies; and also to deal finally with establishment questions not affecting officers in pensionable service on salaries exceeding Rs. 500 a month. The Railway Board was then to be authorized to distribute the capital outlay contemplated in the triennial programme; to dispose of questions of administration and working generally; and to exercise the other powers mentioned above subject to the Government of India's previous concurrence in their arrangements for new Branch lines and to the usual principles of budget control.

The Secretary of State sanctioned\* the constitution of a Railway Board of three members, one of them possessing English experience. He also agreed to the preparation of programmes covering three years' expenditure, though the right to restrict the grant in the event of financial emergency was reserved. And as requested in a later despatch† he agreed to allow the reallocation of lapsed grants up to a maximum of Rs. 50 lakhs per annum. In regard to the delegation of powers a larger measure of freedom was conceded though not in the precise form which the Government of India desired. The new Board came into existence in February 1905, and its proceedings form part of the history of the newly established Department of Commerce and Industry, to which it is subordinate.

With these reforms and the practical disappearance of the remittance difficulty the problem of railway finance reached a working solution. The limits on borrowing remained and continued to be emphasized from time to time by the Secretary of State,‡ but in practice funds were more freely forthcoming,

\* Desp. from Secretary of State, No. 65, d. 19th August 1904.

† Desp. to Secretary of State, No. 223, d. 23rd June 1904 (Part III, page 147).

‡ Desps. from Secretary of State, No. 21, d. 7th February 1902, and No. 15, d. 15th January 1904.

(iv) Three years  
borrowing  
programme.

(v) Reallocation  
of lapsed grants.

(vi) Adoption of  
a bolder borrowing  
policy.



and there are indications that a bolder borrowing policy may be definitely accepted in the near future. This question was brought to a head by a scheme formulated by Sir Edward Law on which the Secretary of State was addressed \* in February 1905. The late Finance Member, anticipating that the investing public in England would be more readily interested in Indian Railways if they were divested of their character of State-owned properties and presented as ordinary commercial securities, proposed that the Government should buy up those Railways of which they are not already sole owners, regroup all the lines into suitable systems, form them into private companies, and sell the greater part of them, in the shape of shares and debentures, to the public. The Government of India though unable to support the scheme itself were in sympathy with its underlying motive. They impressed upon the Secretary of State the conviction that the full value of their magnificent railway property is still imperfectly realized by the British investor, and urged that if the profitable results of railway as well as of irrigation enterprise were properly laid before the English public it should be possible for the State to obtain by direct borrowing, and at a lower rate than any private companies, all the funds required for the prosecution of a more vigorous policy. The Secretary of State's views on this final representation had not been received when Lord Curzon left India.

(vi) *Progress in  
railway extension.*

Meanwhile railway expenditure continues to expand and is every year more convincingly justified by the test of actual results. The total capital expenditure in the five years ending March 1894, including companies' lines, amounted to nearly £19 millions, and in the next quinquennium, under the impetus imparted by Lord Elgin's Government, this sum was advanced to over £25½ millions (or £16 millions excluding companies' capital). At the end of this period the Government proposed† temporarily to reduce the annual expenditure to about £4½ millions "to allow a short time for the earning capacity of the lines recently constructed to develop itself before again undertaking special burdens." But this intention was abandoned. During the six years ending in March 1905, the aggregate expenditure rose to £37¾ millions (or nearly £25¾ millions excluding companies' capital). The estimate for the current year (1905-06) amounts to £8,300,000 and the triennial programme for 1906-07 to 1908-09, which has been recently submitted ‡ to the Secretary of State, contemplates an annual outlay of no less than £10,000,000. The substantial surpluses of recent years no doubt contributed to the initial acceleration of the rate of progress, but there is every reason to expect that it can be maintained. The constitution of the Railway Board is a guarantee of increased efficiency. The settlement of the exchange difficulty must appreciably enhance the Government of India's borrowing capacity. Above all, the railways have now shown that they can more than pay their way. The State railway system as a whole, in spite of the inclusion of lines constructed for other than purely commercial purposes, has at length begun to yield a substantial though fluctuating surplus, after paying the interest on the entire railway debt as well as the annuities for the purchase of some of the companies' lines. This surplus has amounted in the last six years to £4½ millions§, half of which was earned in 1904-05 alone. In this context it may be added that, though the conditions of the London money market after

\* Desp. to Secretary of State, No. 62, d. 9th February 1905 (Part III, page 150).

† Desp. to Secretary of State, No. 363, d. 2nd November 1905.

‡ Paragraph 26, Financial Statement, 1899-1900.

§ Paragraphs 36-38, Financial Statement, 1905-6.

the South African war were unfavourable to securities of any kind, the gradual lowering of the rate at which the Government of India have been able to borrow has justified a reduction\* of the interest charge above mentioned. From 1900-01 onwards interest is calculated at  $3\frac{3}{4}$  per cent., though for capital outlay before that date the old rate of 4 per cent. is still maintained.

In the foregoing paragraphs the question of Railway finance has been treated as standing by itself. But the programme system actually covers all productive capital expenditure including that on Irrigation. The latter has till recently held a subordinate though not an insignificant place. It was considered a primary obligation to supply the country with a fairly complete railway system by which food could be poured into every distressed area in time of famine. While building up this system the Government found the means to carry out some of the most remunerative of the possible irrigation projects, and from the revenue supplied by the famine insurance grant they constructed a number of unremunerative but protective works. In addition many minor though often very productive works had been constructed from ordinary revenue.

*Irrigation finance.*

In 1901, believing that the possibilities of productive irrigation and the obligations of the State in respect of protective works were far from being adequately recognized, the Government appointed a strong Commission to report upon the whole subject, and in particular "to determine the scope which exists for further extension of State irrigation works." The Commission's report was received in 1903, but it was not until May 1905 that the Government were able to complete their examination of its far-reaching proposals and submit† their matured recommendations to the Secretary of State. From the financial point of view the most important feature of the report is a programme of State construction extending over 20 years and involving a capital outlay of close on £29½ millions in addition to the cost of works already in progress. This large sum includes no less than £13 millions for protective works, and £6 millions more for works the prospects of which are not sufficiently assured for them to be definitely classed as productive. The financing of such a programme involved much the same questions as those discussed in connection with railway extension. It also raised more directly than hitherto the question of precedence as between railways and irrigation; and it introduced considerations relating to the policy of the famine insurance grant and the propriety of meeting unproductive capital expenditure from borrowed funds which were not present, or at any rate not prominent, in the discussion of the railway problem. The Government of India, while recognizing that as the various projects included in the scheme are further scrutinized and new requirements are brought to light the Commission's programme will necessarily require many modifications, have accepted it as laying down for the first time the broad lines of a continuous policy, and believe that they can meet the outlay involved without unduly retarding the progress of railway construction. They have already raised the allotment for productive works from Rs. 100 to Rs. 125 lakhs, and they anticipate that if the Secretary of State is prepared to draw more freely upon the London market it will in the near future be possible to find Rs. 150 lakhs a year for expenditure on existing and new productive projects. The protective works will be financed from the moiety (Rs. 75 lakhs)‡ of the Famine Insurance Grant which it is the practice to regard as available for measures of protection

\* Desp. from Secretary of State, No 70, d. 5th April 1901.

† Revenue Department (Civil Works) des. to Secretary of State, No. 18, d. 18th May 1905 (Part III, page 166).

‡ A portion of this moiety will however still be required for protective railways.



against famine. Finally it is proposed to provide an annual grant of Rs. 10 lakhs for minor works, which have been somewhat neglected in the past. These measures should suffice to ensure the completion of the whole programme within the period of twenty years which the Commission contemplated.

The Government did not mark time till the Commission's report could be considered and all financial questions settled. In the six completed years included in Lord Curzon's Viceroyalty the expenditure on productive works has averaged more than £  $\frac{1}{2}$  million a year, and since 1901-02 increasing attention has been paid to protective works. The budget estimates under these two heads for 1905-06 (£833,000, and £480,000) indicate a total expenditure of more than twice the former average, and if "minor works" are included the aggregate annual outlay approaches, though it is still short of, the standard of about £1 $\frac{1}{2}$  millions a year which the Commission have recommended. At the same time irrigation revenue has been rapidly increasing, owing largely to the remarkable success of the Punjab canal system; and it is estimated\* that the net return on the capital expenditure on productive works is now 8 per cent. (before payment of interest), or close on £1,000,000 a year after payment of all charges.

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\* Paragraph 40 of Financial Statement for 1905-06.

## CHAPTER IV.—TRADE AND ECONOMIC PROGRESS.

The foregoing chapters exhibit the purely financial relations between the Government and trade, and the financial methods adopted in the administration of State industries. The Department of Finance was also the Department of Commerce until the recent constitution of a Department of Commerce and Industry, when its commercial functions were transferred to the new Department. An account must accordingly be given of the action taken by the Government at other points of contact with commercial and industrial interests.

*Introductory.*

Perhaps the most important feature of recent commercial administration is the attention paid to the procedure, personnel, and organization of the official establishments through which the Government are brought into relations with trade. The Accounts Department, recruited directly from England and reinforced from the ranks of the Indian Civil Service, trained in the commercial centres, and administered by the Supreme Government as an Imperial service, is in some respects a model. Procedure is uniform, and the intermediary between the Government and the banking and monetary world is an officer accustomed to consider and able to represent the commercial point of view. These conditions have been singularly wanting in the Customs Department, though trade is far more closely concerned in the daily routine of its administration. It is essential to the mercantile community that customs procedure should be simple, prompt, and uniform, and effectively controlled by an officer of broad and liberal education and possessing considerable technical experience. For some time past the Government of India have felt that in these respects the present arrangements were not satisfactory. Each maritime province has hitherto had its separate customs service administered by the Local Government. Frequent complaint of diversity of procedure has been made both in England and India, especially in connection with the administration of the Merchandise Marks Act. The Collectors of Customs at the principal ports were obtained from the Civil Service; they usually had little or no previous customs experience, and were constantly removed to ordinary executive appointments as soon as they were beginning to learn their work. Their assistants were for the most part promoted subordinates who had become unfitted by a long round of routine work for independent positions. The Government of India themselves have been hampered by the want of expert advice in customs matters.

*Reform of Customs Department.*

Attempts have been made to mitigate these defects by general orders and minor improvements. Thus in January 1900 instructions were given as to the method of dealing with enquiries on trade subjects, and in April 1901 a circular was issued enjoining attention to uniformity of procedure. In 1902, in consequence of complaints received from the commercial community, a committee was appointed\* to advise on the simplification and reform of the conduct of business in the Calcutta Custom-house; and a valuable report was submitted which has already led to a number of improvements†. The Government have also revised‡ and unified the system of levying fees from the public for overtime work done by customs officers and other connected departments. Again in 1904 it was arranged§ to place an officer on special duty

\* Letter to Government of Bengal, No. 4782-S. R., d. 5th September 1902.

† *P*ide letters to Government of Bengal, No. 2356-S. R., d. 4th May 1903, and No. 2942-S. R., d. 9th May 1904, and desp. to Secretary of State, No. 292, d. 18th August 1904.

‡ Desp. to Secretary of State, No. 384, d. 25th December 1902 (Part III, page 299).

§ Desp. to Secretary of State, No. 98, d. 31st March 1904.

to compile a manual of rules and orders applicable to all the British Indian ports, and the same officer was deputed\* to study the systems of trade registration in force in England and the Continent, prior to taking his place as a member of a committee appointed to revise the Government of India's statistical publications. The Committee concluded its task in May 1905, and its report is now under consideration. But the considerations already summarized forced the Government to the conclusion† that such measures do not go far enough, and that the Customs administration must be reformed and the present methods of recruitment "absolutely swept away." The alternative system upon which the opinions of Local Governments and Chambers of Commerce were invited, was based upon the constitution of the Accounts Department as outlined above. The Customs Department was to be made an Imperial service available for employment at any of the principal ports of India, and directly controlled by the Government of India in matters of recruitment, establishment and posting. The higher ranks were to be officered entirely by men recruited from England or by members of the Civil Service; for the latter it was proposed to reserve a proportion of the principal posts, but not to appoint an officer to be Collector of Customs until he had served for a term as Assistant. The scheme was approved by the Chambers of Commerce, with a cordial recognition of the consideration for commercial interests which led the Government to put it forward. It was accordingly submitted‡ to the Secretary of State in December 1904, and, after some correspondence regarding the scale of pay proposed, was sanctioned. It will be introduced immediately, but some time must elapse before it can come into complete operation since recruitment on the new lines can only be undertaken as vacancies arise in the existing staff.

*Proposed Bureau  
of Commercial  
Intelligence.*

The Government were not usually in the past conspicuously concerned in trade questions except as they arose in the exercise of ordinary administrative and fiscal functions. They employed a number of scattered officers and establishments whose duties included the collection of statistics and other information on economic subjects: as for example the Directors of Agriculture in the different provinces; the Reporter on Economic Products; the Geological Survey and the Forest Departments; an Agricultural Chemist and Botanical and Entomological experts; and the Director-General of Statistics. But there was no machinery for collecting and systematizing and disseminating the information which these officers accumulate, and no central agency to which enquiries on trade and economic subjects could be addressed. The question was taken up on a reference§ from the Secretary of State regarding the Commercial Intelligence Committee which had recently been established as an adjunct to the Board of Trade in London. The Government of India, as they observed in addressing|| the Chambers of Commerce, were

"impressed by the defective nature of the arrangements for providing the Government with advice and information upon commercial and industrial questions in which the State is concerned. Still more noticeable is the almost entire absence of any machinery by which Government can systematically procure and communicate to the commercial public information on matters which are of interest to them, and regarding which individuals or public bodies may have difficulty in obtaining it for themselves. It would appear that the creation of a machinery, competent to supply this twofold defect, must necessarily be of benefit both to the mercantile community and to the State."

\* Desp. to Secretary of State, No. 145, d. 12th May 1904.

† Letter to Government of Bengal, No. 7505-S. B., d. 29th December 1903.

‡ Desps. to Secretary of State, No. 409, d. 29th December 1904 (Part III, page 303), and No. 218, d. 15th June 1905.

§ Desp. from Secretary of State, No. 115, d. 16th August 1901.

|| Letter to Chambers of Commerce, No. 2747-S. B., d. 20th May 1902 (Part III, page 211).

They accordingly proposed to establish a Bureau of Commercial Intelligence with a specially selected officer at its head as Director-General, and under him two Assistants, one for statistical work, and the other for commerce. The "primary function" of the commercial side of the Bureau was to be the collection and publication of "all information likely to be of use to the commercial public, or to the Government in its relations to commerce. This would embrace matters relating to both import and export trade, to the inland and trans-frontier trade, to the industrial and mineral resources of the country, to the competition of foreign staples with local products in India, and of Indian staples with foreign products abroad, to the development of existing markets and the discovery of new ones." For the dissemination of this information the Director-General was to employ three principal channels: a well-arranged library of books, reports, pamphlets, notes and maps, accessible to the public; an enquiry office in which all information not readily available in the library would be arranged, registered, carefully indexed and brought up to date; and a periodical journal on the lines of that of the Board of Trade.

The scheme was generally approved by commercial authorities with a *caveat* against the unrestricted publication of information supplied to individual enquirers, and a widely expressed desire (with which the Government were in full accord) that the department should include an officer selected from outside the ranks of Government service. There was however some disposition, especially in the Press, to criticize the proposed Bureau as being on too modest a scale and likely to become "a mere machine for collecting statistics"; and when the Secretary of State, to whom it was submitted\* in December 1902, still further reduced† its scope, the Government of India decided not to proceed with it.

But the proposal was not abandoned till they had in view a more important project in which with slight modifications the smaller scheme has since been incorporated. The volume of administrative business, which was long ago recognized as excessive, had gone on increasing till the urgent necessity of giving some relief to the civil Members of the Executive Council could no longer be ignored. The Viceroy, on whose initiative‡ the question was discussed, showed that this relief could only be obtained by the addition of a sixth ordinary Member, and he urged the Government to take the opportunity to revise the faulty and unscientific distribution of public business, and to recognize "the importance of providing more directly for commercial and industrial needs." In no branch of work was this want of system and co-ordination more conspicuous than in commercial administration. The Finance and Commerce Department, in spite of its designation, dealt with only a limited portion of the numerous classes of commercial business. Indeed no single Member could undertake the whole unless relieved of other duties. The Finance Department's list included the two general heads of "Trade and Commerce" and "Statistics;" a fairly homogeneous group made up of Ports and Coast Lights, Merchant Shipping, Customs, Cotton Duties, and Merchandise Marks; and in addition Government Stores and Printing and Post Office. The Revenue Department had also a long list of economic subjects, such as Geology, Minerals and other economic products, Inventions and Designs, Emigration, and "Internal Land Trade." The Home Department dealt with the regulation of factories and explosives, and the Public

*New Department  
of Commerce and  
Industry.*

\* Desp. to Secretary of State, No. 337, d. 4th December 1902 (Part III, page 313).

† Desp. from Secretary of State, No. 46, d. 3rd April 1903.

‡ Minute of 4th July 1903 enclosed with Home Department Desp. to Secretary of State, No. 61, d. 1st October 1903 (Part III, page 316).

Works Department with Telegraphs and Railway Administration. Lord Curzon's proposal was to create a Department of Commerce and Industry under the control of a special Member of Council, and to make over to it the whole of the subjects above-mentioned and a few others which have been omitted. The inclusion of railway administration among the functions of the new department is of special interest as it involved radical changes in the Department of Public Works. As explained in the third chapter, the proposal contemplated the transfer of much of the railway work to a Railway Board, and what was to be left was of a commercial rather than a technical character. To quote from Lord Curzon's minute :— "One of the severest and justest criticisms against our existing system of railway administration has been its indifference to the commercial aspect of railway development. Not even the creation of a Railway Board will be a guarantee for reform in this respect, since technical knowledge and authority must always be in the ascendant upon it. At the same time there are large numbers of questions of railway policy, connected with tariffs, freights, the classification of goods, the movement or congestion of traffic, and the like, in which commercial interests are involved, and which it is desirable that Government should consider and decide not exclusively from the railway point of view. I would place them in charge of the Member for Commerce and Industry." This scheme was adopted\* by the Government of India and sanctioned by the Secretary of State, and came formally into effect† in March 1905. As part of the new arrangements the Director General of Statistics was replaced by a Director General of Commercial Intelligence, the new appointment being given to the then Secretary of the Bombay Chamber of Commerce,

The policy of the Government of India in the new department and the measures initiated in the brief period of its existence are set forth in a separate narrative. It is convenient however that the present summary should carry on to the date of the termination of Lord Curzon's Viceroyalty the account of the proceedings of the Government in the branches of administration which were transferred from the Finance to the Commerce Department, and this has accordingly been done.

Among the trade questions so transferred tariff matters form an important and connected series to which the rest of this chapter will be mainly devoted. The other branches of commercial business include a variety of miscellaneous questions of which an account will be found in the second part of the summary. It will suffice to notice here three measures which illustrate the readiness of the Government, whether in the ordinary course of administration, or outside it, to give practical effect to their declared interest in trade and industry.

*Indian Companies  
(Branch Registers)  
Act.*

The first of these measures is the passing of the Indian Companies (Branch Registers) Act (IV of 1900), the object of which was to encourage the investment of British capital in Indian enterprises constituted on a rupee basis. The Act, which follows English legislation, enables an Indian company to open a register of members in the United Kingdom ; and so places it in a better position to obtain a quotation on the London Stock Exchange. An unavoidable result of the extension of a company's operations to England is that shares inscribed on the London registers become liable to English stamp and probate duty, but this has been neutralized by their exemption from the corresponding Indian duties. The Act provides for joint stock capital the convenience which in the case of rupee paper is offered by the system of

Home Department Resp. to Secretary of State, No. 61, d. 1st October 1903 (Part III, page 316).  
Home Department Resolution No. 532, d. 1st March 1905 (Part III page 345).

enfacement. As it is impossible to legislate in India for supervision and control in England, it is a purely permissive measure, and only operative so far as the companies elect to make use of its provisions. It was introduced at the request of the commercial community, and is of some interest and importance as illustrating the new requirements which spring from fixity of exchange.

The second measure is the Indian Tea Cess Act. In 1902 a memorial was *Tea and Indigo.* presented to the Government of India by the Indian Tea Association acting on behalf of a large number of companies, firms, and persons owning tea estates in India, who prayed that a compulsory cess of one-fourth of a pie per pound might be imposed on Indian tea exported by sea. The object was to provide funds for pushing the sale of Indian tea both in India and in other countries. A similar cess had been imposed in Ceylon, but in India the only funds available for the purpose were obtained by a voluntary levy which, though fairly well supported, yielded an insufficient sum for the successful prosecution of the objects in view, and was unequal in its incidence and difficult to collect. The Government felt some hesitation\* in applying their fiscal machinery for the benefit of a single section of the community. But the tea industry is important and its condition was at that time depressed, and they were reluctant to allow too much weight to academic considerations if there was a practically unanimous wish on the part of the tea growers to try the experiment. The Secretary of State adopted† the same attitude, and though "not prepared to agree to any similar action in respect of other industries until its success should have been fully established by practical results," he left the Government of India a free hand in this particular case. The proposal, to which 80 per cent. of the tea growers had by this time declared their adherence, was accordingly published for objections. As only two or three isolated protests were received, and these of little weight, the Government determined to impose the cess for a period of five years, and the measure became law by Act IX of 1903. Full powers were taken to satisfy both the Government and the public as to the proper administration of the cess. The Government have also assisted the tea industry by a grant of Rs. 5,000 per annum for three years, in addition to Rs. 10,000 promised by Local Governments, for the prosecution of scientific investigation and research into the methods of tea cultivation and manufacture. For similar researches in the case of indigo a grant of Rs. 50,000 a year for three years has been given by the Bengal Government; and valuable assistance has been rendered in other ways, the account of which belongs to the record of the Government of India's agricultural administration.

In this connection reference may also be made to the action taken by the Government of India when the Home Government enhanced the British import duty on tea by 2*d.* per lb. in 1904. This proposal elicited strong protests from the Indian Tea Association and other commercial bodies, and these were supported by the Government of India and forwarded to the Secretary of State. It was however impossible to avert the threatened impost. But when similar representations were renewed in 1905 and some experience had been gained of the prejudicial results of the enhanced duty, the Government of India were able to give more effective support and the additional duty was removed with effect from July 1905. The Government of India have also assisted the Indian tea

\* Desp. to Secretary of State, No. 140, d. 15th May 1902 (Part III, page 351).

† Desp. from Secretary of State, No. 111, d. 4th July 1902.



industry by addressing the Ceylon Government on the subject of the high import duty levied on Indian tea imported into Ceylon, the effect of which is to drive the blending trade to London ; but they have been unable to obtain any concession on this point.

*Commercial Mission to Persia.*

The third of the incidents selected to illustrate the Government's attitude towards trade is the recent Commercial Mission to Persia. The idea originated in the tour of Mr. Maclean the Special Commissioner deputed by the Board of Trade to report upon the conditions and prospects of British trade in Persia. His valuable report has been since published and is now in the hands of Indian merchants. His itinerary however did not cover Eastern and South Eastern Persia, these being the parts in closest trade connection with India, and it was therefore suggested by the Consul at Kerman that a Commission should be sent from India to examine the Kerman province and then proceed to Eastern Persia and Seistan. The proposal was sympathetically received by the Government of India, who undertook to meet the cost of the Mission with the exception of the purely personal expenditure of the delegates, and consulted the Chambers of Commerce with a view to working out a practicable scheme. Ultimately the Upper India and Bengal Chambers and the Indian Tea Association agreed to be represented. The Upper India Chamber in particular entered most heartily into the scheme and their selection of Mr. Gleadowe-Newcomen as a delegate (and President), and the Government's insistence on the non-political character of the Mission, were the factors which most directly contributed to its eventual success. The Mission's tour in Persia extended from November 1904 to May 1905. A third report, dealing with trade in North-East Persia and written by Mr. Greensill, the Government Canvasser for trade over the Nushki-Seistan route, has also been published.

*Character of the Indian Tariff.*

The account of these efforts to promote the extension of India's foreign trade leads up to a consideration of the Government of India's action in their tariff relations with foreign countries. The Indian Tariff imposes import duties on a low scale for purely revenue purposes, and is "entirely free from any trace of preference and from any protective intention." But, as will be seen later, India is not absolutely precluded from a modification of her present system, and the fact that this is always a practical possibility invests her commercial policy with a special interest and importance.

*Trade with maritime Native States.*

As regards the mainland of India the Government have aimed at a free interchange of goods and the complete removal of customs restrictions. With this object they have in the past insisted upon reciprocity in their relations with maritime Native States, exempting the sea-borne trade of States which extend the same advantage to British Indian goods, and in other cases levying the ordinary duties. Lord Curzon's Government reconsidered this policy in 1900, and came to the conclusion that though equitable in theory it hampered the coasting trade to an extent which was out of proportion to the gain of revenue. Moreover, it was scarcely possible to expect Native States whose imports far exceeded their exports to forego the customs taxation on which their finances largely depended. The Government accordingly proposed\* to waive the condition as to reciprocity and exempt the coasting trade altogether. But the Secretary of State objected to a general exemption ; and the Government have recently been forced to take a step in the opposite direction by establishing a customs line to intercept the land-borne trade of certain Native States in Kathiawar which had improved their harbours

\* Desp. to Secretary of State, No. 278, d. 23rd August 1900 (Part III, page 353).

and connected them by rail with the British Indian system. Under these conditions there was a serious danger that trade would seek the new route to avoid the payment of customs duties, unless the States guaranteed more effective customs administration in their own ports by assenting to British supervision. As they declined this alternative the Government were reluctantly compelled \* to enforce the other.

The question has since been re-opened on a discussion of the political status of one of the Chiefs concerned and with reference to the extreme inconvenience which the preventive line undoubtedly causes, and the Government have now formulated† a revised scheme under which the customs barrier will be withdrawn if the States undertake to levy customs duties and excise duties on cotton goods at rates not lower than those in force in British India; to enforce the tests required by the Merchandise Marks Act and similar enactments; to prohibit the importation of arms and ammunition; to maintain accurate statistics of their sea-borne trade; and to agree to periodical inspection of their customs accounts and arrangements by a Government customs officer.

In her dealings with foreign countries India has on several recent occasions been exposed to fiscal attack. The first and most flagrant instance was the invasion of her home markets by bounty-fed sugar, which sought a new opening in India when excluded from the United States by the countervailing duties imposed in 1897. The Government of India were already discussing the propriety of adopting a similar remedy when Lord Curzon joined them in 1899. Enquiry showed that, simultaneously with the increased imports from Austria and Germany which began in 1897-98, the rupee price of sugar had fallen, the area under cane had contracted, and the native refineries were being closed in constantly increasing numbers. The connection of these facts with the bounty system was somewhat obscured by famine, but there could be little real doubt of its existence, and the Government determined to protect the Indian producer and manufacturer before the injury was too serious to be repaired. Fortunately no difficulty arose from the conflict between the consumer's and the producer's interests. The superior bounty-fed sugars are for the most part consumed by the well-to-do classes who can easily afford to forego the adventitious advantage which the bounty system confers on them. The producers of sugar are the struggling agricultural community, large numbers of whom rely upon this valuable crop for the payment of their rents and the Government land and canal revenue. The refining industry is also an important though somewhat undeveloped branch of native enterprise which, as Lord Curzon observed‡, the Government were bound "to stimulate and encourage by every means in their power." In this view they were strongly supported by both commercial and native opinion. They accordingly decided to legislate, and by Act XIV of 1899 took power to impose countervailing duties up to the full amount of any State bounties upon the export of sugar.

The intention was to countervail all bounties, direct or indirect, and in whatever form they were given, but after a momentary check the imports of bounty-fed sugar continued to increase, and it was evident that in some manner the object in view had been frustrated. The complete explanation was only supplied by the Brussels Conference of 1901, which showed

\* Desp. to Secretary of State, No. 119, d. 21st May 1903.

† For. Dept. letter No. 4267-I. A., d. 13th October 1905.

‡ Speech in Legislative Council on 20th March 1899.

*Countervailing  
Sugar Duties.*



that the recognized bounties on exports were not the only or indeed the chief advantages conferred by the bounty system. It appeared that in Austria and Germany the duties on imported sugar were far in excess of the excise on sugar locally produced, and this difference or "surtax" had enabled their producers and refiners to control prices in the home markets by means of "cartels" or private trade combinations, and to dispose of their excess production in foreign countries at less than its prime cost, while still retaining a considerable profit on their aggregate transactions. The advantage thus gained by exported sugar produced under the cartel system was so great as to amount, on the calculations adopted by the Brussels Conference, to an indirect bounty of Rs. 2-13-9 per cwt. in the case of German and of Rs. 3-3-9 per cwt. in the case of Austrian sugar, these rates being more than double the duty which sufficed to counteract the direct export bounties. The menace to the Indian producer which this system involved is sufficiently indicated by the fact that in 1901-02 Austria and Germany alone sent to India over 141,000 tons as compared with 10,000 tons in 1893-94, and 36,000 tons in 1895-96,

The interesting but complicated discussions which followed the proceedings of the Brussels Conference cannot be fully examined here. As is well known, a Convention abolishing sugar bounties\* was framed, to which most of the bounty-giving countries adhered. India did not become a party, though she agreed to discontinue the levy of duties in the case of countries which ceased to give bounties. But the bounty system is concealed in so many disguises that she preferred to reserve the right of private judgment in deciding whether any country is or is not subsidizing its sugar, instead of binding herself to accept the findings of an international commission whose interests and hers are somewhat divergent. Some difficult questions also arose as to her course of action during the interval between the framing of the Convention and the date (1st September 1903) on which it was to come into effect. There was a serious danger that in the meantime India would be inundated by the enormous stocks of sugar which were sure to be pushed upon the export market before the bounty system expired. The Government decided that the countervailing duties must continue in full vigour till all the bounty-fed sugar had been absorbed, and afterwards be dormant but not entirely abrogated. Accordingly by Act VIII of 1902 they took power to countervail the cartel bounties till September 1903; by Act XII† of 1903 they extended the operation of these special duties so as to cover sugar produced before September 1903 but exported later; and by Act XI of 1904 they revived the power to impose such duties, so as to be able to deal at once with any repetition of the cartel system either in the countries where it originated or elsewhere. The original duties counteracting export bounties were also retained, and extended by Act XII of 1903 so as clearly to cover State bounties on production. These are now the only duties in actual operation and they are at present applied only against countries which have not joined the Brussels Convention. At the same time the Government resolutely set their face against the tendency of these defensive measures to degenerate into open protection. Mr Finlay, in replying to criticisms on the Bill of 1902, took occasion to insist that the Government had "never proposed or contemplated giving to the sugar industry of India protection against the fair and ordinary

\* Except a small surtax designed to protect home industries without being large enough to reproduce the abuses of the cartel system.

† This Act was not strictly enforced, except for a short time, as it was thought to conflict with engagements entered into on behalf of India at the Brussels Conference.

competition of foreign sugar"; and Lord Curzon enforced this statement of principle by warning\* the Indian producers and refiners that the future of their industry must depend on extended cultivation and the substitution of modern methods for the crude and old-fashioned processes so generally adopted in this country.

The bounty system lasted long enough for the Government to see this legitimate and well-defined policy end in success. The imports of Austrian and German sugar, which as already stated reached 141,000 tons in 1901-02, declined to 52,000 tons in 1902-03 and to 15,000 tons in 1903-04; and the yield of the countervailing duties which had reached its maximum (£270,000) in the first of these years fell in the last to only £17,000. But the Viceroy's caution was immediately justified by the fact that the void was filled up by additional imports from cane-producing rivals, more particularly Mauritius and Java, this new competition being again due in large part to the action of the United States which has driven Java sugar to India by the preference recently given to Cuba in her own markets. In 1904-05, Russia and the Argentine Republic were the only countries exporting sugar known to be bounty-fed. But the amount was insignificant and the duties yielded less than £1,500. Java sent 100,000 tons and Mauritius 101,000 tons. The imports of Austrian and German beet sugar also showed a remarkable revival, the total exceeding 80,000 tons. It is to be remembered however that India is the largest individual sugar producer in the world, and the aggregate imports of about 347,000 tons probably represent not more than one-ninth of the home production.

The next of the threatened industries was coffee. France, in her fiscal warfare with Brazil, found it convenient to raise her duties on imported coffee by nearly 100 per cent. India was incidentally but gravely affected, for one-third of the produce of the Indian coffee plantations finds a market in France. Brazil at once came to terms and secured for herself a rate even more favourable than that originally in force, but the enhanced rate was retained as against India as a means of extorting special advantages for French products. It was not however actually enforced, as the operation of the new law was suspended by successive decrees till the negotiations were concluded. The Government absolutely refused† either to discriminate in favour of France, or to grant any material concessions the extension of which to other countries would have seriously injured the customs revenue. They proposed instead to levy enhanced duties on certain articles of luxury which are largely or exclusively of French origin. On this basis the negotiations were brought to a conclusion in 1903 by a Convention which gave the benefits of the minimum tariff to Indian coffee and other "colonial produce" in return for a reduction of the Indian duties on copperas and vinegar, which, though applied to all countries alike, only costs a few thousand rupees a year. The Convention however only protects India against discrimination, and shortly after it was signed France raised the minimum duty on pepper and threatened to raise that on coffee. *France and coffee.*

Similar questions were again raised in 1905 by a contemplated change in the application of the French import tariff which will have the effect of placing Indian silks at a disadvantage as compared with those of China and Japan. But in this instance the trade affected is insignificant, and, while desiring that *France and silk.*

\* Speech in Legislative Council on 6th June 1902

† Despatch to Secretary of State, No. 346, d. 18th October 1900 (Part III, page 355).

friendly representations should be addressed to the French Government with the object of securing most-favoured-nation treatment for all articles of Indian origin, the Government of India were emphatically of opinion\* that the circumstances were not such as to justify retaliation.

*Russia and tea.*

In the next case India was penalized for the supposed offence of the mother country, and in spite of the protection assured† to her by the guarantee of most-favoured-nation treatment at the hands of the attacking country. Russia took exception to the exclusion of her bounty-fed sugar from the United Kingdom under the terms of the Brussels Convention, and retaliated in 1903 by imposing a small surtax on Indian and Ceylon tea imported into Russia across her European and Black Sea frontiers, China and Java tea being exempt from this impost. India had a weapon, which she proposed to use, in the imposition of a differential duty on Russian petroleum, but the actual injury caused by the surtax was not of immediate practical importance‡ as long as the route *viâ* Dalny and the Siberian Railway remained open; and, in view of the wider issues which a tariff war was likely to raise, it was decided to attempt a settlement by means of diplomatic representations. A further representation§ was addressed to the Secretary of State in May 1905, but the result is not yet known.

*New Persian Customs Tariff.*

Russia has also struck at Indian trade in Persia by revising the Russo-Persian (Turkomanchai) treaty under which by a separate compact India enjoyed most-favoured-nation treatment on the basis of an all-round 5 per cent. *ad valorem* tariff. The new tariff, which came into force in February 1903, imposed a scale of specific duties adjusted in a manner conspicuously detrimental to Indian as compared with Russian trade. While negotiations were still pending, the Government of India strongly represented|| that they should be fully consulted, and urged that an expert should be sent to Tehran to discuss the details of the tariff on the spot. But the efforts of British diplomacy were only partially successful, and the utmost that could be obtained was a special Anglo-Persian Agreement by which India became entitled to most-favoured-nation treatment under a tariff purporting to be identical with that applied to Russian goods. Some question¶ has been raised as to whether the two agreements really are identical in all respects. In any case, whatever be the nominal equality, the new tariff as already stated is actively differential in its practical result. This was clearly shown when the Government, having undertaken\*\* to compensate Indian traders for its introduction without notice, found that on consignments valued at less than Rs. 1½ lakhs the difference between the new duties and the old amounted to close on Rs. 53,000. This unusual concession was continued for several months after the new tariff came into force, the object being to prevent the capture of the Meshed and Seistan markets by Russian traders, who had laid in large stocks in anticipation of the higher duties with the hope of underselling Indian traders at the start and getting a firm hold before the latter could recover.

It is probable that the rates of customs duty will shortly be raised by 15 per cent. all round in view of the depreciation of the Persian silver currency, though the proposal has been deferred for the moment. This was a contingency for which provision had been made in the Anglo-Persian Convention. There is,

\* Desp. to Secretary of State, No. 34, d. 6th July 1905 (Part III, page 358).

† Desp. to Secretary of State, No. 384, d. 17th December 1903.

‡ Desp. to Secretary of State, No. 122, d. 5th May 1904.

§ Desp. to Secretary of State, No. 19, d. 18th May 1905.

|| Telegram to Secretary of State, No. 1665-E.A., d. 28th September 1901.

¶ Foreign Department letter No. 1577-F. B., d. 20th April 1904.

\*\* Desp. to Secretary of State, No. 14, d. 21st January 1904.

also reason to believe that the Persian Government contemplates an enhancement of the present rates at which duty is levied on tea—a measure which has been shown, after discussion, to be within its treaty powers.

The case of Japan is interesting as illustrating the considerations which in particular cases may make retaliation impossible. India had the opportunity of securing most-favoured-nation treatment by adhering to the Anglo-Japanese Treaty of 1894, but held aloof till her growing trade with Japan again brought the question into prominence. Negotiations were opened in 1899, but were kept in abeyance owing to Japan's reluctance to accept the usual stipulations by which the Indian Government reserve the right to control the movements of foreigners. In 1902 a firm of Indian merchants complained of the injury to trade involved in the heavy duty levied by Japan on Indian as compared with German salt-petre, and the Government brought\* the matter to the notice of the Secretary of State as an example of the practical inconvenience arising from the absence of a definite arrangement with Japan. Subsequently a similar inequality as between natural and synthetic indigo was noticed. Japan however urged that as she already received most-favoured-nation treatment at India's hands, she had no inducement to make any changes in India's favour, and asked for the reduction by 50 per cent. of the import duties on all her principal exports to India. The Government were unwilling† to follow the precedent established by the agreement with France; indeed they could not have done so without serious loss of revenue, as the articles specified were also imported in large quantities from other countries to which the concession must have been extended. On the other hand, they could‡ not afford to withdraw any of the privileges already enjoyed by Japan. India's imports from that country amounted to only Rs. 68 lakhs as against Rs. 528 lakhs of goods exported thereto, the great bulk of the latter being raw materials which Japan admitted duty free, but might quite possibly see her way to tax in the event of a tariff war. The Government were thus obliged to confine their action to a strong representation of the equity and reasonableness of their demand for reciprocity. It is satisfactory to add that, though at one time the negotiations appeared to have reached a dead-lock, this argument ultimately prevailed, and a Convention was signed in 1904 assuring most-favoured-nation treatment to Indian products and providing for the adhesion of such of the Native States as His Majesty's Government may desire to include. It has not yet however been found possible to obtain a more equitable tariff classification for artificial indigo, and the Japanese imports of the natural product are declining in consequence.

*Commercial Convention with Japan.*

In other commercial negotiations India has generally been less directly concerned; but the Government have found occasion to submit representations on isolated points affecting Indian interests. They have jealously watched the disposition of other countries to restrict India to the export of raw materials by discriminating against articles exported in the manufactured or semi-manufactured state. For example, in dealing with the proposed general tariff of Germany, the Government took§ exception to the differential duty on cleaned rice which was calculated to injure the Burma rice-cleaning industry; and the same point was taken|| in the case of Switzerland. The Government have also urged, both with Switzerland and Turkey,¶ the

*Other commercial negotiations.*

\* Desp. to Secretary of State, No. 271, d. 25th September 1903.

† Desp. to Secretary of State, No. 343, d. 5th November 1903.

‡ Desp. to Secretary of State, No. 132, d. 5th May 1904 (Part III, page 301).

§ Desp. to Secretary of State, No. 157, d. 23rd May 1901.

|| Desp. to Secretary of State, No. 220, d. 23rd June 1904.

¶ Desp. to Secretary of State, No. 354, d. 11th December 1902.

unfairness of applying the same specific duty to both natural and synthetic indigo, and some concessions have been made by the former country. The Turkish negotiations also raised other points, such as the high incidence of the proposed specific duties on tea, jute, and other Indian produce, and the question of reform in Turkish customs\* procedure and regulations. In the cases of Austria-Hungary† and Cuba‡ the Government of India have had to protest against the excessive enhancement of the duties on rice. The Brazilian and Roumanian Governments have also raised their import duty on rice, but some reduction has since been allowed by the former country in deference to representations made on India's behalf. All the foregoing questions are still pending. India's adherence to the commercial treaty with Honduras was notified in 1900. In the case of the commercial treaties between Great Britain and Italy, Portugal, Belgium, and Nicaragua, and the Trade Mark Convention with Guatemala, to all of which India will adhere, it is understood that negotiations have approached or actually reached a satisfactory conclusion, but no decision has been announced. India has also expressed her readiness to join in a separate convention between the United Kingdom and Italy securing reciprocal treatment in respect of coasting trade, and to adhere to the new commercial treaty between the United Kingdom and Cuba. She has also been promised most-favoured-nation treatment by Bulgaria and has secured some important reductions in the duties levied by that country on Indian products. A draft has also been prepared of a revised treaty of commerce which it is proposed to negotiate with the Sultan of Maskat. In September 1902§ a treaty was signed between the British and Chinese Governments by which the latter Government undertakes, among other reforms, to abolish *likin* and other internal taxation on condition of being allowed to substitute a surtax in excess of the ordinary tariff rates and limited to a maximum of one and a half times those rates. In the course of the negotiations, which were conducted by Sir James Mackay, the Indian Government were consulted regarding cotton and jute, and were able to secure some advantages in respect of these articles. The new treaty (which is not applicable to Thibet and Chinese Turkistan) has been ratified and is now in operation with the exception of the articles dealing with internal taxation on trade and with morphia, which do not come into effect until they have been accepted by the other Treaty Powers.

*Tariff relations  
with the colonies.*

India has been admitted by Canada to the benefit of the preferential rates conceded by that colony to the United Kingdom, without being called upon to confer reciprocal advantages. In the same way New Zealand has abolished her import duty on British grown tea. It was also suggested that India should be allowed the benefit of preferential arrangements in the South African colonies, but her imports from these colonies are so insignificant|| that she could offer nothing in return, even if she were willing to depart so far from her present practice; and as it appeared that the colonial law did not permit of India's adhesion except on terms of reciprocity, the matter was dropped.

*Preferential  
tariffs and retaliation.*

It will be seen that the tariff history of the last six years supplies many practical lessons on the question of "fiscal reform" as it affects this country; and when the Government of India were invited¶ by the Secretary of State in August 1903 to state their views upon the resolution adopted by the

\* Desp. to Secretary of State, No. 88, d. 20th March 1902.

† Desp. to Secretary of State, No. 384, d. 17th December 1903.

‡ Desps. to Secretary of State, No. 150, d. 12th May 1904, and No. 3, d. 2nd March 1905.

§ Desp. from Secretary of State, No. 191, d. 28th November 1902.

|| Desp. to Secretary of State, No. 366, d. 3rd December 1903.

¶ Telegram from Secretary of State, d. 7th August 1903.

Conference of Colonial Premiers in favour of a system of preferential tariffs between the various parts of the Empire, they were able, in spite of the vagueness of the proposition submitted for their examination, to base their opinion on a foundation of unequivocal fact and concrete experience which are not always conspicuous in fiscal disputations. Their despatch\* on the subject is so complete a summary of the general conditions of India's foreign trade, and is of such critical importance as an exposition of her future fiscal policy that it must be analysed at some length. The figures quoted are those of 1902-03 which were used in the despatch.

Three-fourths of India's total imports† come from the British Empire, and of the remaining fourth a substantial part consists of articles which the British Empire either does not produce at all or is not in a favourable position to supply. Thus without the assistance of a discriminating tariff the British manufacturer has already obtained the bulk of the inward trade, and in the case of some of the more important articles, such as cotton goods,‡ he seems adequately secured in the possession of the market for a long time to come. In the case of exports§ the conditions are completely reversed. Three-eighths of the total exports are taken by Great Britain and her possessions, a great part being raw materials, the taxation of which is not understood to be contemplated. In the production and supply of tea and wheat, which are two of the most important food-stuffs, India would still compete with other British possessions even if foreign countries were effectively excluded. She already supplies two-thirds of the English rice demand, and for coffee she has a profitable market abroad. Among articles of consumption tobacco alone admits of much expansion.

Thus, while the British manufacturer might profit to a small extent by India's adoption of a system of preferential duties, India herself has little if anything to gain. On the other hand, she has far more to risk, partly in the possible prejudice to her fiscal independence and injury to her customs revenue, but mainly from the retaliatory action of foreign countries. She exports to them £51½ millions worth of goods but takes from them only £12½ millions. *Primâ facie* retaliation should be a more effective weapon in their hands than in hers, and they will certainly be tempted to use it if she departs from her present impartial system under which she already enjoys in an unusual degree the advantages of free exchange. "Indian exports to a value exceeding £38 millions, and approximating to one-half of the entire volume of the export trade, are admitted free of duty into the consuming markets, while of the remainder a considerable proportion is either subject to relatively moderate duties, or, as in the United Kingdom, to duties imposed for purely revenue purposes and with no attempt to differentiate against India." It is true that these advantages are not entirely due to her present system, and might not be completely lost if she abandoned it. In respect of some articles, such as jute, she enjoys a modified monopoly, and the bulk of her exports being raw materials it is to the interest of her customers to obtain them at the cheapest rates, and induce

\* Desp. to Secretary of State, No. 324, d. 22nd October 1903 (Part III, page 363).

† In 1902-03 the last year for which statistics were available when the despatch was written the figures for imports were:—(i) from the United Kingdom, £35 millions; (ii) from other British possessions, £5 millions; (iii) from foreign countries, £12½ millions; (iv) total £52½ millions.

‡ Value of imports from the United Kingdom in 1902-03: £18 millions.

§ In 1902-03 the figures for exports, after adjustment for exports sent to China and Japan through other British possessions, were:—(i) to the United Kingdom, £21½ millions; (ii) to other British possessions, £11 millions; (iii) to foreign countries, £51½ millions; (iv) total £84 millions.



her to take their manufactured goods in return. These circumstances, which were prominently stated in a minute by Sir Edward Law, no doubt detract from the practicability of effective and concerted reprisals against this country. But though she is strong in this respect she is exposed to a peculiar risk which differentiates her case from that of any other member of the Empire. India is a debtor country owing £16 millions per annum in a currency other than that in which her revenues are collected. Her financial stability is absolutely dependent on the maintenance of a sufficient excess of exports over imports. A series of tariff wars with powerful countries would undoubtedly be fraught with grave injury to the export trade, and as the Government of India observed, even if the chances of success were greater than they appeared to be, the certain cost of the struggle and the severe penalties of defeat would be too heavy a price to pay. At the same time, as the records of recent commercial negotiations demonstrate, India is able to defend herself in individual cases; and though she is unwilling to adopt hostile measures except "in the last resort and in circumstances which afford a strong assurance of success," she does not propose to forego the powers of negotiation which she at present possesses. It is her policy to protect herself, under attack and in friendly negotiation, by keeping her hands free and avoiding any pledge which would compel her in advance to accord equal treatment to the imports of all countries alike whether they penalize her exports or not. And if retaliation were at any time thought necessary it could be at once undertaken by the enhancement in particular cases of the general import duty already in force.

*Growth of sea-borne trade and competition of local industries.*

That India's present tariff relations with foreign countries are not on the whole unsatisfactory is shown clearly enough by the recent growth of her sea-borne trade :—

					1898-99.	1904-05.	Increase.
<i>Imports.</i>					£	£	£
Merchandise	...	...	...	...	45,586,894	64,452,192	18,865,298
Gold	...	...	...	...	5,893,370	14,541,316	8,647,946
Silver	...	...	...	...	6,029,268	7,477,037	1,447,769
Total imports					57,509,532	86,470,545	28,961,013
<i>Exports.</i>							
Foreign merchandise re-exported	...	...	...	...	2,247,464	2,248,396	932
Indian merchandise	...	...	...	...	72,900,185	102,752,000	29,851,815
Gold	...	...	...	...	1,557,764	2,465,727	907,963
Silver	...	...	...	...	3,381,023	2,851,984	—529,039
Total exports					80,086,436	110,318,107	30,231,671
Excess of exports over imports					22,576,904	23,847,562	1,270,658

Both the imports and the exports of merchandise have increased by over 40 per cent. The first of the years selected for comparison followed one of famine. The two years following 1898-99 were also famine years, but the next four were a period of recovery and finally of prosperity. This accounts in some degree for what is in any case a remarkable development. No previous year or quinquennium has ever added so largely to the aggregate value of the imports as the year 1904-05 and the five-year period 1900-01 to 1904-05. The only real check is that interposed by the increasingly effective competition of local

manufactures and produce, as in the case of cotton goods, petroleum, and coal. The first still maintain their place as the principal article of import and indeed account for more than one-third of the imported merchandise. If yarns and textile fabrics of all kinds be included the proportion is not far short of one-half. But the imports of yarn have fallen in the last six years from  $45\frac{1}{2}$  to  $30\frac{1}{2}$  million lbs. and those of piece goods have only increased from 2,069 to 2,288 million yards. The growing demand has thus been met in large part from the increased production in India, yarn having advanced by 53 million pounds and piece goods by 180 million yards. In using these figures for the calculation of the local consumption it is necessary however to take account of the expanding export trade in Indian cottons. Similarly the imports of mineral oil show only a slight increase (from 82 to  $83\frac{1}{2}$  million gallons), but the outturn in Burma and Assam, standing at 4 million gallons in 1890, grew to 19 millions in 1898 and 118 millions in 1904, practically the whole being consumed in India. The Indian coal mines produced nearly  $8\frac{1}{4}$  million tons in 1904 as against  $4\frac{1}{2}$  millions in 1898 and 2 millions in 1890.

The other imports also illustrate the growth of purchasing power and industrial activity. From this point of view the figures for the metal group are significant. Imports of iron and steel advanced from £2,223,000 to £4,084,000; of copper from £747,000 to £1,406,000; of hardware and cutlery from £953,000 to £1,586,000; and of machinery and mill work from £2,037,000 to £2,685,000. Similarly the imports of "apparel" increased by nearly two-thirds and of silk manufactures by over one-third, and the imports of woollen goods were more than doubled.

The most important exports are raw materials. Here the figures indicate a complete recovery from agricultural depression. The rice exports of 1904-05 (£13 millions) have never been exceeded in value or quantity, and were nearly  $\text{£}2\frac{1}{2}$  millions above the figure for 1898-99. The wheat exports (£12 millions), after a long period of retarded growth, have attained a record quantity and exceed those of 1898-99 by nearly  $\text{£}5\frac{1}{2}$  millions in value. Seeds and other food grains have advanced by about £3 millions. In 1902-03 the exports of raw cotton exceeded those of 1898-99 by  $\text{£}2\frac{1}{2}$  millions; in the next year, owing to a short crop and speculative operations in America, the value went up with a bound by  $\text{£}6\frac{1}{2}$  millions more. This was followed in 1904-05 by a superabundant crop in America and a consequent fall of  $\text{£}4\frac{1}{2}$  millions in the value of raw cotton exported from India. Coming to products raised or worked up by European capital, the exports of raw and manufactured jute have increased by more than £6 millions. Tea shows an advance of 54 million pounds in quantity, but owing to the fall in price the value is only  $\text{£}\frac{1}{4}$  million higher than that of the much smaller quantity exported in 1898-99. Coffee has slightly declined in value though the quantity exported was the largest for fifteen years, and indigo has continued to lose ground in the competition with the artificial product. The value of the indigo exported in 1904-05 was in fact little more than one-fourth of the figure for 1898-99 and one-sixth of that of 1895-96. The general character and growth of the aggregate trade is well indicated in the shipping figures, which show the tonnage of vessels entering from and clearing to foreign countries to have increased from 9 to  $13\frac{3}{4}$  millions, the United Kingdom and British possessions accounting for practically two-thirds in each year. The frontier trade ( $\text{£}8\frac{3}{4}$  millions\*) and the coasting trade (£51 millions\*) have also increased, by 29 per cent. in the one case and 17 per cent. in the other.

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\* Imports plus exports of merchandise.



*Imports of treasure, and investment.*

No reference has so far been made to the remarkable figures for import of treasure. A recent calculation shows that since 1835 India has absorbed about £189 millions of gold and 1,730 million ounces of silver (the sterling value of which cannot be exactly stated as the undetermined portion which is held in coin has a different value from that held in bullion). Of this enormous total £39 millions of gold and 303 million ounces of silver have been added in the last six years. These figures undoubtedly point to a considerable accumulation of potential wealth, though it can only be a matter for regret that the savings of the people should be so unproductively employed. There are some slight indications of a movement towards western methods, but it must be a long time before the hoarding habit can be sensibly checked. Since 1898-99 the savings banks deposits have increased from £6,285,000 to £9,192,000, and the deposits in the Presidency and joint stock banks from £11,727,000 to £22,111,000. The paid-up capital invested in joint stock enterprises registered in India has also increased by £4 millions, and the capital, reserve, and Indian deposits of the Exchange Banks by £14 millions. A longer retrospect would reveal more striking results, for the tendency is of comparatively recent growth.

*Conclusion.*

It would be possible to give other examples of growing activity, and on the other hand to exaggerate their immediate importance. The progress of industry has been hampered by various disabilities, and it is the belief that these are rapidly being overcome, even more than the attained statistical results, which justifies a hopeful outlook on the future. Economically India is a backward country, and the Government are compelled to assume obligations which are elsewhere imposed on private enterprise. It has been the aim of recent administration to fulfil these primary obligations more effectively: to attract capital by means of a reformed currency system; to increase the supply of industrial labour by education; to extend transport facilities by railways; and to encourage the improvement of raw materials by scientific agriculture. At the same time, in the standard of her administration and in the conditions of her industrial struggle, India is modern and progressive, and must adopt the machinery and methods of modern commerce. Here the responsibilities of private enterprise are greater; but there exists a well recognized field of Government co-operation, and the changes described at the beginning of this chapter are designed to secure that such co-operation shall be more continuous and efficient.

## CHAPTER V.—THE SYSTEM OF ACCOUNTS AND FAMINE INSURANCE.

The relations between finance and commerce have now been examined, and the remainder of the summary will deal with the administrative aspects of recent financial history. But before passing on to the figures for revenue and expenditure it will be convenient to describe certain changes in the methods of exhibiting them which are of more than ordinary interest. The object in view has been to render the accounts more intelligible to the general public, and to remove defects which obscure the true financial position and policy of the Indian Government.

As mentioned in an earlier chapter, the £ sterling has been brought \* back into the Indian accounts but no longer as representing Rs. 10. When it was first removed the fiction that the rupee still retained its old value was kept up by the use of the symbol Rx. That symbol has at last disappeared and with it the exaggerated and misleading entry for "Loss by exchange." The rupee figures are now grouped in fifteens of rupees or pounds (as they actually are), and the small item under exchange merely represents the unimportant profit or loss accruing on the remittance of the pound sterling from India to England. This change, which was introduced by Sir Clinton Dawkins in March 1900, gives to the Indian accounts a reality and simplicity which were previously foreign to them. Every figure now represents a fact; the Home and Indian accounts can be readily and accurately combined for individual heads; and the familiar thousands and millions replace the lakhs and crores which are a special difficulty to the English reader. The same change has been introduced† with effect from 1898-99 in the revenue and expenditure tables of the Financial and Commercial Statistics and in certain other publications.

The establishment of a fixed ratio between the sovereign and the rupee has also immensely simplified the work of accounting and calculation in many directions. The fixed rate of 1s. 4d. can now be always assumed for budget purposes as that at which the remittances of the coming year will be effected. It has been accepted‡ for the conversion of the transactions of Assisted Railways into rupees, and in the ensuing distribution of surplus profits between the Government of India and the companies. It is similarly used for the adjustment of postal and other transactions between the Home and the Indian Governments, and has been adopted for the calculation of exchange compensation.

In March 1901 Sir Edward Law§ introduced a further simplification by splitting up the general statement in which the whole accounts of the year are summarized into two distinct abstracts, one of which deals only with revenue and expenditure charged against revenue, the final result being the surplus or deficit of the year; while the other is primarily a ways and means account, leading up to the closing cash balance at the end of the year. Another useful change effected at the same time was the collection under one head of all the items of Railway and Irrigation capital which are not charged against revenue. The Secretary of State did not however approve of a further proposal that only the net figure for railway revenues should in future be shown in the main accounts. Under the existing system the gross receipts and expenses of railways account for one-fourth of the nominal revenue and of the nominal expenditure of India. Lord Curzon's Government urged,|| as Lord Dufferin's Government had

*Changes in the Accounts:*

(i) *Substitution of sterling for rupee figures.*

(ii) *Use of fixed rate of exchange.*

(iii) *Abstracts of Revenue and Capital Accounts.*

(iv) *Railway Accounts.*

\* Financial Statement, 1900-01, paragraph 4, and Desp. to Secretary of State, No. 16, d. 18th January 1900 (Part III, page 177).

† Desp. to Secretary of State, No. 329, d. 4th October 1900.

‡ Desp. to Secretary of State, No. 237, d. 14th August 1902.

§ Financial Statement 1901-02, paragraph 4, and Desp. to Secretary of State, No. 22, d. 17th January 1901 (Part III, page 180).

|| Desp. to Secretary of State, No. 22, d. 17th January 1901 (Part III, page 180).

done before, that the practice of exhibiting the gross figures, which must of course continue to expand as new railways are opened, was "productive of grave misapprehension as to the increasing income and extravagance of the Government of India." The Secretary of State replied\* that he could not accept "the opinion that the increase of revenue and of expenditure arising from the development of the railways and canals is only apparent, and that the omission from the main accounts of nearly £ 20,000,000 of revenue and expenditure will give the public a more clear view of the vast transactions in which the Government is engaged for their welfare. Nor can I accept such a change as justifiable in the accounts, which profess to state the total revenue and the total expenditure chargeable thereon." The Government accordingly contented themselves with improving† an existing supplementary statement‡ of net revenue and expenditure, and clearly exhibiting in it the net figures for Railways and Irrigation; and adding§ in the Finance and Revenue Accounts a new statement (number 53) suggested by the Secretary of State, which displayed the profit earning capacity of the different railways more intelligibly than previous returns.

*Famine insurance policy : (i) Protective expenditure.*

A renewal of old discussions on the policy of famine insurance also involved some interesting questions of account, while raising wider issues which may be conveniently examined in this chapter. The Government allot £1,000,000 a year to defray the cost of actual famine relief and to protect the country and insure the finances against this contingency in ordinary years. There has at times been some appearance of laxity in applying the allotment, which was originally raised by special taxation. But in 1900 the Government reverted|| to the older and more correct practice of charging against the famine grant only such Railways and Irrigation works as were really protective and non-productive. They discarded the idea that the programme of such works was approaching exhaustion, and through the recommendations of their Famine and Irrigation Commissions were able to show that there was a much wider outlook for protective irrigation than had previously been recognized. They also suggested¶ other classes of expenditure to which the Famine grant could be legitimately devoted, and in 1904 obtained\*\* the Secretary of State's sanction to the discontinuance of the practice of reducing the grant by the amount of the net loss on the Bengal-Nagpur and Indian Midland Railways. By these changes the administration of the famine allotment was placed on a defensible footing so far as relates to the portion expended on measures of protection.

*(ii) Avoidance of debt. Defects of present system.*

But this portion is limited in normal years to £500,000. The remaining half million, which is exhibited in the accounts as expenditure on the "reduction or avoidance of debt," goes into the cash balances like the ordinary surplus, and like it is devoted to capital expenditure on productive works. The history of this part of the famine grant has been a record of constant misconception and dissatisfaction, which minor changes in the accounts have altogether failed to remove. In 1901 the question was re-opened in a minute†† of the Viceroy and examined with reference to the obligations of the Government to the public and the practical requirements of famine finance. The two main objects of the insurance scheme are to secure that over a series of years the cost of

\* Desp. from Secretary of State, No. 45, d. 8th March 1901.

† Desp. to Secretary of State, No. 90, d. 20th March 1902.

‡ Statement E appended to the annual Financial Statement.

§ Desp. to Secretary of State, No. 11, d. 23rd January 1902.

|| Despatch to Secretary of State No. 309, d. 31st August 1899 (Part III, page 185).

¶ Desp. to Secretary of State, No. 232, d. 11th July 1901 (Part III, page 188).

\*\* Desp. to Secretary of State, No. 193, d. 9th June 1904.

†† Minute, d. 29th January 1901, enclosed with Desp. to Secretary of State, No. 232, d. 11th July 1901 (Part III, page 188).

famine shall be met from revenue, and to facilitate the provision of funds in years of actual famine. The second object more immediately concerns the Government; the first affects the public. In compelling them to bear the burdens of the present the Government incur the obligation to render a strict account, and show that they are not also anticipating the burdens of a future generation, or misapplying the sums raised for famine purposes to ordinary current needs.

This is precisely the point upon which it has never been found possible to satisfy the public mind. The difficulty can be best explained by comparing the present\* procedure with that which would govern the administration of a real fund, as for example an investment in consols. The present constructive reserve is treated as increased whether the full famine allotment is made or not; a fund could only be increased by money being really found and set aside for the purchase of securities. The present reserve is treated as reduced in amount by all sums applied to actual famine relief; a fund would only be reduced in so far as expenditure on famine relief was met by the actual sale of securities instead of from current surplus or economy in expenditure. The present system treats sums applied to the extinction of debt as reducing the reserve; under the funding system such sums would have been utilized to increase it. One of the first points which the Government had to consider when proposing to establish a fund was the limit at which further accumulation should cease; the accounts of the present system make it impracticable for the taxpayer to raise this point effectively. The funding system would show at once if the fund were being applied to other than famine purposes; it is impossible to follow the application of a "reserve of credit." In short from the public point of view, the whole system is unintelligible and unsatisfactory.

It remains to be seen whether the second purpose of the scheme—the provision of an effective insurance—is fulfilled. If the famine surpluses reserved in non-famine years do not operate to retard the growth of debt the scheme can only affect the borrowing power of the Government by increasing the assets held against the debt, the rate of increase being half a million a year. No one seriously contends that so small a difference in what is only one element in the Government of India's financial standing can influence the rate at which their loans are raised. It is therefore necessary to fall back upon the hypothesis of avoidance of debt, and the whole defence of the present system, considered as one of insurance, rests upon the three propositions: that debt is avoided; that credit is thereby improved; and that the Government are thus enabled to borrow freely in famine years. Each of these propositions seems open to question, and every questionable claim advanced on behalf of the scheme increases the distrust to which the obscurity of the accounts independently gives rise.

Whatever may have been the practice in the past, the present tendency in railway finance is to increase the annual borrowings up to the point at which the limit of reasonable caution is approached. So far as this is the case, the claim that debt is constructively reduced by the operation of the famine insurance scheme cannot be sustained at all. Indeed if the effect of the existing policy is to improve the Government's credit as is asserted, and the Government are borrowing as much as they safely can, the growth of debt must be accelerated rather than retarded. This possibility illustrates the practical importance of a defect

\* *Vide* the "pro forma account" on page 53 of the Financial Statement for 1904-5. The publication of this statement has now been discontinued.

brought out in the Viceroy's minute. The insurance if any which the scheme provides is not specifically a famine insurance but an insurance of a general character which may, unknowingly, be utilized for general purposes. Assuming however that there is a real avoidance of debt, the doubt again arises whether the popular estimate of the Government of India's financial stability can be affected by the fact that the public debt, which stood at £110 millions when the scheme was introduced twenty-eight years ago, has increased to £221 millions instead of to £233 millions. There is more to be said for the view that the extra half million might strain the capacity of the market for Indian investments in particular years. But if the normal margin is really so narrow the fact seems to condemn a policy which concentrates all the borrowing for famine purposes into the years of actual famine, instead of spreading it over the intervening years of prosperity. Even so, it should be possible to claim for the famine insurance scheme that, however small the amounts involved, it satisfies the investing public in a general way that a borrowing country which is specially exposed to agricultural disaster is pursuing a cautious financial policy. But this advantage cannot be looked for as long as the public do not understand the scheme or believe in it.

Finally, whether debt is avoided or not and whether credit is improved or not, it is a matter of actual experience that in the absence of a reserve of saleable securities the financing of a famine is a matter of extreme difficulty. To keep the famine borrowings within safe limits administrative expenditure has to be ruthlessly cut down, and the whole administrative machinery is thrown out of gear both then and for some time afterwards. As the Viceroy observed :—

" I fail to see, when the recent famine broke out, how all the enormous sums that have been devoted to the reduction or avoidance of debt since 1881 to the present day furnished us with an insurance against the visitation. On the contrary, our surplus disappeared in the twinkling of an eye, and we had to cut down our Public Works programme, to stifle administrative reform all round, to raise large loans both in India and at home, and as regards the Indian loans to enter the market when the conditions were as unfavourable to us as they could possibly be. Why, therefore, should there be anything heterodox or improper in proposing that the unexpended balances of non-famine years should be invested in stock and allowed to accumulate, so as to constitute a genuine Famine Insurance Fund? I grant that it might not, in all probability, be the most strictly economical method of utilising the money. On the other hand, when a famine did befall—and my belief is that they will recur with increasing frequency—we should possess the inestimable advantage of a large reserve fund which could at once be employed to meet it, independently of taxation or loans or the state of the market; and we should, I believe, awake in the public mind a confidence in our integrity that no financial measure of the Government of India during the last quarter of a century has aroused."

(iii) *Proposed investment of famine grant.*

The Government of India supported the Viceroy's views and recommended\* the funding system to the Secretary of State, and with it a corresponding change in the accounts, the effect of which would be to exhibit all famine expenditure in excess of the year's grant as expenditure from capital instead of as expenditure from revenue. The Secretary of State, replying† in 1902, traversed the contention that the formation of a fund had been intended by the originators of the scheme, and maintained the view that the present system involves a real avoidance of debt. He pointed out that the annual investment could not be effected without either retarding the construction of public works or increasing

\* Despatch to Secretary of State, No. 232, d. 11th July 1901 (Part III, page 188).

† Despatch from Secretary of State, No. 4, d. 10th January 1902.

the sterling borrowings, and while admitting "a certain force in the argument in favour of raising debt in anticipation of the emergency for which the money may be required" he failed to see any advantage in such a procedure so long as the system of annual loans for public works is continued. The famine fund was therefore disallowed. He suggested an alternative method of accounting which however the Government of India did not adopt, being unwilling to "revive public controversy by making small changes which would not touch the root of the matter," and also suggested the form of famine insurance account which has been noticed in an earlier paragraph.

The Government of India did not accept this decision as final, and re-submitted\* their proposal with further explanations. They admitted the objections to any increase in sterling borrowing, but urged that the additional half million could be obtained in India. They also showed that there would be no difficulty in effecting the remittances for the Famine Fund investment. The Secretary of State did not, however, concede the correctness or relevance of the first of these arguments. The Government of India then made† a third and equally unsuccessful effort. In his reply‡ the Secretary of State indicated the financial measures required in his opinion to provide for famine expenditure: first, the extinction of existing floating debt; second, the maintenances of high balances in India and England; and third, the financing of actual famine, at any rate in part, by temporary loans which should be subsequently converted into permanent debt so far as they could not be repaid from revenue surpluses. The Secretary of State also negatived a request that the correspondence might be published.

It may be of interest to add that from the introduction of the famine insurance scheme in 1878-79 till 1896-97 there was no serious famine, though not a year has passed without some trifling expenditure on relief operations. In Lord Elgin's Viceroyalty the direct expenditure on famine relief (incurred chiefly in 1896-97 and 1897-98) rose to close on £5,000,000, and indirect charges and loss of revenue brought this figure up to £10,500,000. In Lord Curzon's Viceroyalty there have again been two years of severe famine (1899-00 and 1900-01), and the expenditure in the two following years was somewhat heavy. Altogether the direct charges in this period|| amounted to £7,000,000 and the further loss due to famine to over £4,000,000. The account of the famine grant debits against the sum of £28 millions provided by famine taxation in twenty-eight years is £15,589,021 expended on famine relief and protection from current grants, £7,737,040 expended in excess of current grants in the four years of severe famine, and £1,510,612 applied to the extinction of debt, the remainder (£3,163,327) being exhibited as the balance at credit. (iv) *Present state of famine account.*

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\* Desp. to Secretary of State, No. 185, d. 3rd July 1902 (Part III, page 201).

† Desp. from Secretary of State, No. 30, d. 13th February 1903.

‡ Desp. to Secretary of State, No. 147, d. 28th May 1903 (Part III, page 205).

§ Desp. from Secretary of State, No. 78, d. 29th April 1904.

|| *s.e.*, April 1899 to March 1906.



## CHAPTER VI.—REVENUE, EXPENDITURE AND TAXATION.

*General character of the period.*

The period of Lord Curzon's Viceroyalty, though it was inaugurated by the agricultural misfortunes which caused the enormous famine outlay mentioned in the last chapter, has been distinguished by a constant expansion of revenue and a succession of large surpluses. It will be shown in the following pages that this improved financial situation has not been secured by the inherent severity and rigidity of the fiscal system or a want of sympathy in administering it.

*Arrangement of figures.*

In this context the general question of net *versus* gross figures, which was raised in the particular case of railway accounts, assumes a special importance. "Modern finance has accepted as correct the policy of bringing all sums received and expended into account, so that the budget shall reveal any defective operations carried on." But for other purposes, and especially in the case of India, practical critics as well as theoretical writers have advocated the use of net figures, and this method will be adopted in the following analysis. It must be pointed out however that it withdraws from sight some important administrative expenditure such as the charges of district administration which are treated as a set off to the Land Revenue, and eliminates altogether any items which appear on both sides of the gross accounts. Some reclassification is also desirable if the figures are to be intelligibly presented. It will be convenient to distinguish completely between economic revenue and taxation. The economic receipts are derived from industries or land. The former division is always held to include Government Railways, Irrigation, Post Office, and Telegraphs, which the Indian account system treats as expenditure heads. The receipts from the manufacture of opium for foreign consumption ("opium"), from the sale of bills ("exchange") and from the Mints will also come most appropriately under this head. Land Revenue and Forests and tributes paid by Native States constitute the "State Domain." Taxation strictly so-called includes Excise, Customs, Stamps, Registration, Provincial Rates, Assessed Taxes (*i.e.*, Income-tax) and Salt. The first two stand by themselves as taxes on articles which in the main and for the bulk of the population are of voluntary\* consumption. The rest, and especially the salt-tax, are of a more distinctively obligatory or universal character. Under expenditure there is not so much need for rearrangement†, and the grouping of the heads in the published accounts can be closely followed.

*Net and gross revenue in 1898-99 and 1905-06.*

The net figures exhibiting the growth of revenue and expenditure in recent years according to the Indian classification are given in an appendix at the

\* Cf. Sir Edward Law's statement that "Almost the only imported articles which I believe are consumed by the poorer classes are grey cotton goods, copper, in smaller proportion silver, and in very small proportion petroleum. .... In comparison with their numbers and aggregate taxable capacity the poorer agricultural classes contribute but a trifling proportion to our revenue from customs" (Financial Statement, 1903-04, page 213).



end of this chapter. The following table shows the effect of regrouping the net revenue figures, and compares them with the gross receipts :—

(Omitting 000.)

	NET RECEIPTS			GROSS RECEIPTS.	
	1898-99.	1905-06.* (Budget)	Increase.	1898-99.	1905-06.* (Budget)
<i>Economic Revenue.</i>	£	£	£	£	£
(a) Industrial Receipts ... ..	1,957	5,339	3,382	23,366	35,067
(b) Receipts from land ... ..	16,001	16,441	440	20,152	21,692
Total ... ..	17,958	21,780	3,822	43,518	56,759
<i>Taxation.</i>					
(a) Taxes on consumption (excluding salt) ..	6,605	9,206	2,601	7,030	9,807
(b) Other taxes ... ..	12,518	11,406	—1,112	13,455	12,469
Total ... ..	19,123	20,612	1,489	20,485	22,276
GRAND TOTAL ... ..	37,081	42,392	5,311	64,003	79,035
Add receipts of spending departments ...				3,593	4,398
Aggregate gross revenue ...				67,596	83,433

It can be seen at once that though the increase of gross revenue amounts to £16 millions (and the expenditure has kept pace) there is nothing in this fact to imply severity in taxation or extravagance in expenditure. The great bulk of both the nominal and the net increase has arisen from the growth of industrial revenue. The deficit on the railway system, which amounted to £620,000 in 1898-99, has been converted into a surplus of £1,564,000. The opium revenue, the growth of which in no way affects the Indian tax-payer, has recovered to the extent of nearly £1½ millions. It is still, however, below the figure of fifteen years ago. The true return from productive Irrigation works continues to improve, but this head is burdened with the charges for the maintenance of protective works and with the capital outlay as well as the cost of up-keep of minor works, on which increased expenditure is now being incurred. It thus accounts directly for only a small addition to the aggregate net revenue. The operations of the Postal and Telegraph Departments have also expanded, but unlike the English Post Office they are not worked with an eye to revenue, the improvement in returns being devoted to an extension of the facilities offered to the public. The final result is that industrial revenue (that is, on the foregoing figures, the revenue from railways and opium) has contributed 64 per cent. of the net increment, and now constitutes 12 per cent. of the net receipts as against 5 per cent. in 1898-99, the most important gain—that under Railways—being also the most assured as regards its permanence and the most beneficial in its results.

Passing on to the next branch, it will be found that the improved financial position has not been obtained by laying heavier burdens on the land. Liberal remissions during the famine period kept the yield of the land revenue below the figure of 1898-99 for several years. The gross increase of £1,162,000 (or £509,000 net), which finally emerges in 1905-06 when the country had recovered from famine, is to a large extent nominal, an addition of

\* The revenue for 1905-06 includes the figures for Berar which was leased to the British Government in 1902-03 by the Nizam of Hyderabad for an annual payment of Rs. 25 lakhs (charged in the Berar accounts). The gross revenue figures for Berar are: (i) economic revenue £599,900; (ii) taxation £309,400; (iii) receipts of spending departments £31,200; (iv) total £940,500. The net revenue figures are: (i) economic revenue £311,200; (ii) taxation £298,100; (iii) total £609,300. To these amounts £5,000 should be added for the net gain from Berar Railways adjusted in the Imperial accounts. For Berar expenditure see the footnote to the expenditure table.

£555,000 being due to the first appearance of Berar in the Indian accounts. The balance amounts to only one half of the increase of the preceding five years, which were also disturbed by famine. The Government of India are entitled to expect a progressive improvement in the revenue from land with the extension of cultivation and the development of canal irrigation; but there has been no desire to press hardly on the agriculturist community in their time of trial. On the contrary the present aim is to expedite recovery and maintain agricultural stability by a more judicious and elastic system than has commonly been adopted in the past.

Of the other heads in this branch Forests show an advance of £97,000, and Tributes a decline of £167,000 which represents the rental paid for the permanent lease of Berar.

*Rapid increase  
under Excise and  
Customs.*

Coming next to taxation, it appears that the remainder of the recent increment of revenue is obtained from Excise and Customs. The former accounts for an improvement of £1,507,000 and Customs for £1,094,000, the two items together contributing 49 per cent. of the whole net increment. Many factors enter into the growth of excise revenue, and the exact facts are difficult to elucidate, but it may be asserted with some confidence that heavier taxation, the suppression of illicit traffic, recovery from agricultural depression, and growth of population, account for the increase of revenue to a far greater extent than any assumed development of the drinking habit. Indeed the available information tends strongly to negative the presumption that such a development can have occurred at all. The statistics relating to country liquor were collated and explained by the Finance Member in connection with the Budget debate\* of March 1905. He was able to show that in the last twenty years the proportion of the population served by outstills had shrunk from 53 to 29 per cent.; in other words an area of 132,000 miles carrying nearly one-fourth of the entire population had been transferred from an admittedly bad system to a better. In distillery areas, for which alone such information can be given, the average consumption per head had fallen by 18 per cent., and the incidence of excise taxation for these areas had meanwhile risen by 68 per cent. The policy consistently pursued and recently again enunciated† in unmistakeable terms is that "the growth of excise revenue is to be regarded as satisfactory only when it results from the substitution of licit for illicit manufacture and sale, and not from a general increase of consumption." The second part of the summary will show how this policy has been translated into practice during the period under review by the constant enhancement of taxation and simultaneous increase of preventive establishments; by extraordinary measures in special cases, as in Burma and Assam; and finally by the general overhauling of the excise administration throughout India which is now to be conducted by the newly appointed Excise Committee.

The rapid advance under Customs began in 1900-01 with a rise of £207,000, which was followed in 1901-02 by a further increase of £461,000. This was largely due to the receipts from the countervailing duties on sugar. Their practical discontinuance in 1903-04 caused a temporary check, but in the following year the returns again rose by £416,000, just passing the figure (£4,077,000) which has been taken in the current year's budget. As shown in the fourth chapter the growth of imports and the manner of its distribution between the various heads are indicative of a material improvement which has been shared in greater or less degree by every class.

\* Financial Statement for 1905-06, page 209.

† Letter to Local Governments, No. 2455-S. R., d. 21st April 1904 (Part III, page 434).

In the last branch, Stamps and Registration show a practically normal growth. The remaining taxes (Provincial rates, Income-tax and Salt) are the compulsory imposts which, if any, might be expected to press hardly upon the people. The cesses on land follow the land revenue, but their growth has been retarded by the abolition of the famine cess in the provinces in which it was in force. The salt and income taxes were the two selected for important remissions of taxation, the result being that the aggregate net revenue from taxation other than excise and customs shows a decline of over £1 million. *Diminished yield of other taxes.*

A word may be added regarding the receipts to be set off against the principal expenditure heads. The improvement of over £ $\frac{3}{4}$  million includes £99,000 under interest, mainly due to famine loans to Native States and cultivators; £358,000 in the Civil Departments; £320,000 in the Military Department, largely due to recoveries from the Home Government obtained by India in pursuance of the recommendations of the Welby Commission; and £25,000 under Public Works. *Receipts of spending departments.*

To recapitulate: in spite of unfavourable seasons, there has been an exceptional development of the revenue, the net increment amounting to £5 $\frac{1}{2}$  millions or more than 14 per cent. of the aggregate net revenue of 1898-99. But this increment has been obtained without any considerable advance in the Land Revenue and in spite of large remissions of obligatory taxation. In round figures an additional £1 $\frac{1}{4}$  millions has been derived from the foreign consumers of opium; £2 $\frac{1}{4}$  millions from railways; and £2 $\frac{1}{2}$  millions from imported and exciseable articles and the export duty on rice. Apart from the improved opium revenue, the fluctuations of which are independent of Indian conditions, the result may fairly be regarded as testifying to the economic progress of the country. The railways are a pure gain both to the Government and the people, and the course of taxation exhibits a distinct advance in consuming or purchasing power. *Summary of revenue results.*

The following are the figures for net expenditure:—

(Omitt'ng 000) *Net expenditure in 1898-99 and 1905-06.*

	NET CHARGES.		Increase.
	1898-99.	1905-06.*	
Interest on debt ... ..	£ 1,811	£ 560	£ —751
Civil Administration—			
† Civil Departments ... ..	9,386	11,871	2,585
‡ Public Works Department ... ..	2,672	5,092	2,420
§ Miscellaneous civil charges ... ..	3,194	3,623	429
Direct famine relief ... ..	27	212	185
Military expenditure ... ..	16,157	20,712	4,555
¶ "Famine insurance" ... ..	765	788	23
** Provincial Surplus (+) or Deficit (—) ... ..	978	—1,370	—2,348
Total ... ..	34,440	41,488	7,048
Imperial surplus ... ..	2,641	904	—1,737

\* The net expenditure of Bihar included in the 1905-06 figures is: (i) Civil Departments £195,100; (ii) Public Works Department £89,400; (iii) Miscellaneous £7,000; (iv) other items—£11,500; (v) total £220,000; and probably about £258,700 for additional military expenditure due to the absorption of the Hyderabad Contingent in the regular army, as well as about £14,700 of additional expenditure in the Central Provinces which is spread over the various heads, and £35,000 for miscellaneous charges such as the estimated cost of pensions.

† The principal departments are General Administration (i.e., Heads of Provinces, Secretariats, etc.), Courts of Law, Jails, Police, Education and Medical.

‡ Excluding Military Works.

§ Chiefly pension and furlough allowances, and printing charges. Exchange is excluded.

|| Including Military Works.

¶ The charges included are those for protective works and for "avoidance of debt."

\*\* This represents the excess or deficiency in the yield of the revenues assigned to Local Governments as compared with their provincial expenditure in the years in question. A provincial surplus is treated as remaining at the credit of the Local Government for expenditure in future years, and does not form part of the surplus of the country as declared in the Budget statement. This latter surplus is merely the Imperial surplus, i.e., the excess of Imperial revenues over Imperial expenditure.

*Reduction of debt charge.*

Various minor items which need not be specially examined enter into the net figure for "interest on debt": for example, interest paid on Savings Bank deposits and interest received from the Paper Currency investment. The final figure is also affected by the amount of the fluctuating temporary debt. The main constituent is however the ordinary or unproductive permanent debt, the interest on productive debt being charged against the railways and canals for the construction of which it was incurred, as explained on pages 36-37. Under the Indian system a surplus\* of current revenue over current expenditure is usually applied to productive purposes, the transaction being treated as equivalent to the transfer of an equal amount from the ordinary to the productive debt. This is in fact the only way in which a country like India which is continuously borrowing for productive purposes can extinguish its ordinary debt. To devote surplus revenues to the repayment of the latter while simultaneously borrowing an equal amount for public works would obviously produce the same net result but at a sacrifice of economy and convenience.

The following figures exhibit the operation of this process in recent years:—

						1st April 1899.	31st March 1906.
						£	£
						Millions	Millions.
Ordinary Debt	...	...	...	...	...	70½	57½
Productive Debt	...	...	...	...	...	124½	163½
Total						194½	221½

The relief to the general tax-payer, on whom falls the burden of interest on the ordinary debt, is in fact greater than the foregoing figures indicate, for the railways and canals represented by the transferred debt are charged, as already explained, with interest at fixed rates (3½ and 4 per cent.) which are higher than the average rate at present paid on the entire debt. In addition they yield an appreciable surplus, and if account be taken of this in calculating their present value, it may be said that practically the entire liabilities are represented by assets. This was brought out in a published statement† by Sir Edward Law who estimated the net liabilities of the Government of India on the 31st March 1902 at £26 millions. A similar calculation showing the position on the 31st March 1904 puts the assets (principally railways, canals and cash balances) at about £348½ millions, and the liabilities (Public Debt, Savings Banks Deposits, etc.) at £355 millions, the net liability being only £6½ millions. To quote Sir Edward Law's comment:—"There are few States in Europe or elsewhere which can boast of such a thoroughly sound financial position."

*Reasons for postponing permanent increase of expenditure;*

Though the revenue was steadily improving the attitude towards expenditure was necessarily for some years one of suspense. At the commencement of Lord Curzon's Viceroyalty the attempt to resist the spread of plague by an expensive system of coercive regulations was in full force. The future of the currency question had not been placed beyond the reach of doubt. And the series of famines and unfavourable seasons which began in 1896-97 was only momentarily interrupted. The programme of new expenditure as well as the question

\* Certain other assets, e.g., Savings Bank balances are similarly applied. The aggregate transfer from ordinary to productive debt is measured by the difference between total expenditure on capital account and the amount borrowed in any year.

† Paragraphs 73-79, Financial Statement, 1903-04.

of remitting taxation had to wait till the windfalls of the first years could be confidently treated as recurring. Moreover the additional amounts which the development of the revenue placed at the disposal of the Imperial Government were too large to be lightly dissipated. Till the completion of the exhaustive enquiries in which almost every department of administration was being overhauled it would not have been wise to place the whole of the additional funds at the unreserved disposal of the spending authorities. The financial relations of the Imperial Government with the most important of these authorities—the Local Governments—also required revision. The provincial settlement system, which had rendered admirable service to administrative efficiency in the past, had practically broken down. It had long been recognized that the machinery must be improved, and it was desirable that the improvement should be effected before the new resources were finally allocated.

Thus the tendency was to utilize surplus funds either in capital expenditure or in non-recurring expenditure charged against revenue, and so keep in hand a sufficient margin of income for the reform of the police and other departments as soon as the methods of reform were settled. The conditions of the time were such that this could be done not only without waste but with positive advantage. The resources of most of the provincial Governments had been exhausted by famine and plague, and their civil administration had consequently been starved, both in the Department of Public Works which is naturally the first to suffer from adversity, and by the postponement of urgent requirements in connection with district administration, education, and medical relief. The liberal Imperial subventions of the last few years have restored a more normal standard of smoothness and efficiency, and have thereby enabled the provinces to start fair when the final distribution of resources took place. The policy of making up the minimum provincial balances from Imperial funds instead of requiring the Local Governments to treat this as a first charge on their improving resources has also facilitated the process of recuperation by enabling the whole of the provincial revenues to be applied to administrative expenditure, recurring or otherwise.

The sums thus granted to Local Governments in excess of the revenues assigned to them under the terms of their provincial settlements for the time being amounted in the six years of Lord Curzon's administration which end with 1904-5 to £7,971,000\*. A large proportion (£2,809,000) was devoted to making up the provincial balances which had been depleted by famine and plague, Bombay and the Central Provinces as the chief sufferers receiving the principal share. Grants aggregating £1,212,000 were similarly made with the object of restoring a normal scale of expenditure on requirements which had been starved in consequence of famine and plague. Under this head came numerous non-recurring grants for public works, and recurring grants for the improvement of district ministerial establishments. Compensation amounting to £554,000 was also paid to recoup the loss incurred by provincial revenues in consequence of remission of taxation. Initial grants aggregating £1,667,000 were paid to the six† Local Governments whose provincial assignments were revised in this period. Partial effect was given to various schemes of reform, more particularly in respect of education and irrigation, by grants amounting to £844,000. £577,000 was allotted for specific local objects, the most important

\* This total and the subsequent figures on the same subject include only the provinces in which the provincial settlement system was in force. Smaller grants of the same kind were also made to Baluchistan, the North-West Frontier Province, Berar, Ajmer and Coorg.

† Excluding the Central Provinces which received an initial grant in 1905-06.

being the projects for the improvement of Calcutta and Simla in which the Imperial Government have a special interest. And a small sum (£308,000) was found for works of public utility such as hospitals, gardens, and libraries which are apt to be crowded out in the competition for funds. The bulk of the grants throughout were non-recurring though some were repeated from year to year.

The system was one which, if indefinitely continued, would have undoubtedly tended to undermine the sense of financial responsibility among the Local Governments, and this was recognised\* by the Government of India when their policy in these matters was questioned by the Secretary of State in 1904. But by that time the system had nearly fulfilled its special purpose. The grants given in 1905-06 (£1,618,000) include only £76,000 for non-recurring expenditure. The remainder are all recurring, and the principal items (£320,000 for police reform; £233,000 for primary education; and £133,000 for agricultural development) would have been allowed for in the determination of the revised provincial assignments if the cost of these expensive schemes of reform had been fully worked out at the time the new settlements were effected. The grants for the year also include the large sum of £373,000 transferred to Local Governments to enable them to augment the resources of district boards, whose efficiency in the important matters which they administer, particularly in respect of the supply and maintenance of local communications, has hitherto been stunted by inadequate funds. This last measure in fact assists the Provincial Governments in doing for local bodies what the Central Government has already done for them, temporarily by the system of special grants, but ultimately and permanently by the revision of their settlements on terms which recognize their claim to a larger share of the aggregate revenues of the country.

*Resultant growth  
of civil expenditure.*

The figures previously given indicate a net increase in the expenditure on civil administration by £5,569,000 in the seven years. But the high expenditure proposed for 1905-06 has only been made possible by drawing on provincial balances, and if a correction is made on this account the true increase is found to be £3,221,000. A large part of this addition is accounted for by the reforms for which provision was made in 1905-06 as already described. Adding the similar grants made to minor administrations in the same year, and also the recurring grants for education and district establishments first given in 1902-03, an increase of £1,497,000 is obtained, made up of £533,000 under education, £333,000 under police (this being only a first instalment of the new charges involved in police reform), £133,000 for agricultural development, £120,000 for district establishments, and £377,000 for District Boards. An addition of £228,000 to the previous scale of expenditure is accounted for by the inclusion of Berar. The remainder of the new expenditure of which no account has yet been given amounts to £1,496,000. It is possible that the full total has not yet been permanently appropriated to recurring requirements. But as Local Governments have throughout been actively applying their increased resources to numerous minor measures of administrative reform, and have largely augmented their outlay on public works, the unallotted surplus of provincial revenues cannot be large. In any case it is at their own disposal. The whole apparent increase in expenditure on civil administration amounting to about £3½ millions must in fact be regarded as of a practically permanent character;

\* Despatch to Secretary of State, No. 24, dated 19th January 1905 (Part III, page 237).



and to this should be added more than £½ million representing increased expenditure charged against the Land Revenue head.

The South African war made it impossible that military expenditure should remain stationary. Even in the earlier years of the period large sums were spent in bringing the Indian Army to a higher standard of efficiency in respect of armament and organisation, and the Government had already begun to provide the factories and other requirements which are needed to make it self-contained and independent of imported material and equipment. A part of the non-recurring expenditure involved was obtained from savings exceeding £ 2½ millions (exclusive of additional receipts) which accrued from the absence of Indian troops in South Africa and elsewhere. More recent events however have shown that the military needs of the Empire demand a greater outlay and more systematic provision than had previously been contemplated, and, as explained in the second part of this summary, the Government have now accepted a scheme of Army Reorganisation and Redistribution put forward by Lord Kitchener which commits them to a five years' programme of special expenditure at the rate of \*£2,167,000 a year. The amount actually provided for this scheme in the budget of 1905-06 is no less than £3,267,000. Excluding the cost of military expeditions (which was £705,000 in 1898-99 and is expected to be £40,000 in 1905-06) the net expenditure in 1905-06 on "Army" and "Military Works" exceeded that of 1898-99 by £5,219,000. Thus the normal expenditure has risen by about £2 millions† exclusive of the special outlay on reorganization. If the latter be taken at the programme figure the final result is an increase of over £4 millions, assured for the next five years at least. It is not likely that the completion of the reorganization scheme will be accompanied by any fall below the present figure, as it is expected to entail a permanent addition of £1,333,000 to the recurring expenditure on the army, and ordinary charges will meanwhile have gone on increasing.

Against this increase however may be set off the fact that the expenditure on military or quasi-military operations has fallen to a relatively insignificant amount. In the five years ending with 1898-99 the sums spent on frontier expedition aggregated £4,584,000. The corresponding figure for the succeeding seven years was £1,246,000, which represents the cost of the Mahsud Blockade and the Tibet Mission.

A statement can now be made of the additional revenue which the Government of India have had at their disposal and of the manner in which they have utilized it. Besides the ordinary growth of revenue account must also be taken of the taxation which has been remitted; of the unproductive expenditure avoided by the reduction of the charge for the public debt; of the small net profit obtained from the transfer to general revenues of the revenues of Berar with the connected charges; and of the amounts set free for ordinary expenditure by the reduction of the outlay on military expeditions. Moreover the year 1898-99 closed with a large surplus (£2,641,000). Several causes make it unwise in India to appropriate the whole of the probable revenue to immediate expenditure. The opium revenue for example is extremely fluctuating. The net railway receipts, bearing only a small proportion to the aggregate turn-over, are easily affected by slight causes. And the finances generally are peculiarly dependent on agricultural conditions. It is therefore usual to budget for a surplus, a

*Growth of military expenditure.*

*Reserve of unappropriated revenue in 1905-6.*

\*Rs 3½ crores.

†This includes however about £259,000 on account of the portion of the regular army which represents the old Hyderabad Contingent. No real charge was involved as corresponding receipts (which appear on the civil side) were simultaneously transferred.



suitable normal figure being Rs. 1 crore or £667,000. The surplus of 1898-99 exceeded this amount by nearly £2 millions of unappropriated revenue which was accordingly available for increasing the scale of expenditure.

Allowing for all these items the comparison between 1905-6 and 1898-9 will stand, in round\* figures, as follows :—

<i>Additional resources available for expenditure.</i>		<i>Objects on which these amounts have been utilized.</i>	
	£ millions.		£ millions.
(1) Growth of net revenue (excluding Berar) ...	4½	(1) Increased cost of civil administration (excluding Berar) ...	3
(2) Revenue applied to remission of taxation ...	2½		
(3) Reduction of interest charge ...	¾	(2) Increase of ordinary military expenditure (excluding Berar) 1¾	4
(4) Profit on Berar (£86,000) ...	¼	(3) Normal allotment for army reorganisation scheme 2½	
(5) Curtailment of expenditure on military expeditions ...	½†	(4) Taxation remitted ...	2¾
(6) Excess of surplus of 1898-99 above £667,000 ...	2		—
	—	Total ...	9½
Total ...	11	(5) Allotment in 1905-06 for army reorganization scheme in excess of the normal grant (Rs. 3¼ crores) ...	1
		(6) Excess of surplus of 1905-6 above £667,000 ...	¼
			—
		GRAND TOTAL ...	11

It thus appears that the Government of India have been in a position by the year 1905-06 to raise the standard of expenditure‡ by £11 millions (net) above the figure at which it stood in 1898-99. Of this amount nearly £2 millions were bequeathed to the present administration in the surplus left by its predecessors, and the remaining £9 millions represent the growth of resources during the seven years, or as in the case of the credits taken in connection with debt and military operations, an economy or avoidance of unproductive expenditure. Out of the whole increment £3 millions has been devoted to the improvement of the civil administration; the army has obtained £4 millions; and the taxpayer £2¾ millions. There remains a reserve§ of actual revenue not finally appropriated amounting to £1¼ millions, part of which is at present held in surplus and part granted temporarily for non-recurring military expenditure. The Government have simultaneously established an invaluable reserve of taxation by the reduction of the salt tax from Rs. 2½ to Rs. 1½ per maund at a cost of about £2¼ millions. There are it is true some impending demands upon the present margin : for example, the full recurring expenditure on police reform is still far from having been attained. But to meet such charges there is also the reasonable expectation of continued growth of revenue.

\* The exact figures in thousands of £ are :—Revenue (1) 4,697, (2) 2,769, (3) 751, (4) 86, (5) 665, (6) 1,974, total 10,942; expenditure (1) 2,975, (2) 1,694, (3) 2,167, (4) 2,769, (5) 1,100, (6) 237, total 10,942.

† i.e., the difference between the sums entered under this head in the accounts of 1898-99 and in the estimates of 1905-06.

‡ Other than expenditure on debt and military operations.

§ Items (5) and (6) on the expenditure side of the table.

This sustained growth of revenue is a factor for which sufficient allowance has scarcely been made in the last few years. The realized surplus has constantly exceeded the budget estimate by very large amounts, and the Government of India have recently had to call\* the attention of Local Governments to the importance of systematically correcting their forecasts by reference to recent experience. The figures are tabulated below :—

			Actuals.	Budget.
			£	£
1899-00	...	...	2,774,623	2,621,800
1900-01	...	...	1,670,204	160,300
1901-02	...	...	4,950,243	690,900
1902-03	...	...	3,069,549	837,700
1903-04	...	...	2,996,400	948,700
1904-05	...	...	3,485,500†	918,700
1905-06	...	...	...	903,800

The explanation is that such an experience is something new or at least forgotten in Indian finance. The seven years beginning with 1898-99 (the commencement of the period coincides with the successful issue of the currency policy) have been years of recurring surpluses, the whole aggregating £21 millions. In the previous twenty years eleven were years of surplus and nine of deficit, and the net surplus for the whole twenty years was only £2 millions. Since 1897-98, the last year of the twenty years' period, the gross revenue has increased by £19 millions. In the previous twenty years it increased by only £4 millions more. It is true that the liability to famine remains, and an unbroken peace has not lightened the heavy burden of preparation for war. But in other respects the year 1898-99 clearly marks a turning point.

These large surpluses naturally brought the claims of the taxpayer into prominence. It was reasonably urged that the appearance of a wide margin between revenue and ordinary expenditure implies heavier taxation than the normal growth of expenditure requires, and that its existence is itself a temptation to extravagance ; and also that it is incorrect in principle to devote large sums of revenue to reproductive capital expenditure. Moreover, as already pointed out, the reduction of taxation when revenue is in excess provides a margin within which it can be again increased in a future emergency. Thus, on every ground, the Government of India were prepared eventually to concede the demand for a remission of taxation, but as already explained several years elapsed before the financial position was sufficiently assured for this step to be actually taken. When the famine of the first two years was at last passing away, the first object of the Government of India, in which they were supported by the practically unanimous advice of Local Governments, was to distribute their bounty in the most direct manner possible to the suffering classes and interests which were most urgently in need of it, and their second to " restore the provincial administrations to the normal level of capacity and outturn."‡ With these objects they remitted £1½ millions of famine arrears of Land Revenue in 1902-03. At the same time they reduced the patwari rate in Ajmere at a cost of about £1,000 a year and abolished the Pandhri tax in the Central Provinces. The latter was a supplementary income-tax on incomes below Rs. 500 which raised the insignificant revenue of Rs. 70,000 a year from no less than 21,000 assesses. Meanwhile the Government

\* Letters to Local Governments, Nos. 7013-20-A., d. 10th November 1904.

† Revised estimate.

‡ Lord Curzon's speech in the Legislative Council on 26th March 1902.

and taxes  
remitted.

were preparing to give permanent relief, and on a larger scale. After considering and rejecting a number of suggestions such as the abolition of the export duty on rice, the reduction of local rates, and the exemption of Government securities from income-tax they submitted\* the following recommendations to the Secretary of State in October 1902 :—

“We desire, as far as possible, to include all the principal sections of the community, namely, the great mass of the poor, the middle and lower middle classes, and the aristocracy as represented by the Native States. The specific proposals to which we now ask Your Lordship’s approval are designed to embrace these three classes. They are, first, a reduction in the salt duty by 8 annas a maund; second, the raising of the limit of exemption from the income-tax to incomes of Rs. 1,000 per annum; and, third, the remission for three years of interest on loans raised by Native States for the relief of famine in 1899 and subsequent years, either from Government direct, or on a Government guarantee.”

Financial effect  
of remission of  
taxation.

After further correspondence† with the Secretary of State these proposals were sanctioned and came into force in March and April 1903. They were estimated to involve a loss of £1,153,000 per annum under the salt tax and of £240,000 under the income-tax‡. It was at first doubted whether the benefit of a reduced duty would filter down to the poorer consumers of salt, but the remarkable increase of consumption which has followed the remission of duty and other evidence shows unmistakably that the purpose in view has been substantially achieved. The change in the income-tax limit was of course immediately effective. Over 320,000 assesses or 60 per cent. of the whole number were exempted, with a loss to the Government of only 18 per cent. of the revenue previously derived from the tax. The administrative relief thus obtained is a valuable if incidental addition to the political advantage involved in striking off the great bulk of the most dubious assessments.

Two years later revenue had again far outstripped expenditure, and in March 1905 the Government, besides making the special recurring grants already described, were able§ to give further permanent relief to the taxpayer. The remissions in this instance took the forms of a second reduction of 8 annas in the salt duty, calculated to cost £1,220,000, and the abolition of the famine cesses levied in the United Provinces, the Punjab, the North-West Frontier Province and the Central Provinces, at a cost of £151,000.

Incidence  
of taxation.

These remissions with those of March 1903, involving a total estimated loss of £2,769,000, were the first considerable reduction of taxation which had been given for more than twenty years. In 1882-83 the salt duty was reduced from Rs. 2½ to Rs. 2; the general import duties levied at the rate of 5 per cent. *ad valorem* were abolished; and the patwari cess in the United Provinces was also abolished. The immediate loss of revenue incurred appears to have been £1½ millions. But the constant fall of exchange and increase of military expenditure made it necessary to take up the old burdens and devise new fiscal expedients. In 1886 an income-tax of much wider sweep was substituted for the existing license tax. The salt duty was restored to its former rate in 1888, and a duty of half an anna per gallon (which was doubled in 1894) was imposed on petroleum. In 1889 the United Provinces patwari cess was revived, and in 1894 and 1896 the general import duties and the cotton duties, which

\* Desp. to Secretary of State, No. 300, d. 23rd October 1902 (Part III, page 211).

† Desp. from Secretary of State, No. 184, d. 21st November 1902, and Desp. to Secretary of State, No. 29, d. 12th February 1903 (Part III, page 217).

‡ The limit of exemption was raised to Rs. 1,000 by Act XI of 1903

§ Desp. to Secretary of State, No. 16, dated 12th January 1905 (Part III, page 222).

had been repealed in 1578 and 1879, were re-imposed (but in the latter instance at a rate of  $3\frac{1}{2}$  per cent. only). The recent remissions do not restore the position established by those of 1882. The customs duties and the income-tax will no doubt remain permanently. But the chief defect of the income-tax has been removed; the salt duty has been reduced to eight annas below the figure at which it stood after 1882; and the abolition of the famine cesses is some set off to the re-imposition of the patwari cess. The incidence of taxation now stands at Rs. 1.12 per head—a figure which is reduced to Re. .79 if the semi-voluntary taxes on consumption (Customs and Excise) be excluded. In the year following the reductions of March 1882 the corresponding figures were Re. .89 and Re. .61.

Notwithstanding the recent expansion of revenue and the remission of taxation some attention has been paid to the possible extension of the Indian fiscal system. It might perhaps be an advantage if the requirements of the future could be met in part by a broadening of the basis of taxation. But as there is nothing in the immediate outlook to justify additional demands upon the taxpayer these speculations are of little more than academic interest. The possible sources of revenue suggested have been an enhanced customs duty on articles of luxury such as are consumed by the prosperous middle classes; an enhanced duty on imported petroleum with an excise on oil of local production; an enhanced duty on imported liquors; an import duty on gold bullion (which is now exempted), and an enhanced import duty on silver; an export duty on jute; an enhanced import duty and an excise on tobacco; succession duties; and an Imperial license tax on trades and professions, replacing the existing municipal taxes of that nature and supplementing the existing income-tax.

The Imperial license tax was not approved. Succession duties were again, though not without reluctance, acknowledged to be impracticable for Imperial purposes, and it is even doubtful whether they can be successfully worked as a local tax as was at one time suggested\* in the interests of Calcutta. The special taxation of tobacco is also beset with many difficulties. The tax on jute after being several times rejected was recommended\* to and approved by the Secretary of State as a local tax to be used in the first instance for financing the Calcutta Improvement Scheme, with some idea of its ultimate appropriation to Imperial purposes. Silver appears to be recognized as a suitable object of increased taxation whenever additional revenue is required, and it has been suggested as a subsidiary advantage of an enhanced duty on this article of import that it would tend to discourage counterfeiting and to raise the value of the enormous quantities of silver ornaments held by the poorer classes. Petroleum too is a not impossible resource. Generally it seems clear that there is a valuable reserve of taxation in the present low-pitched customs duties, but the exact lines which any modifications should follow are undetermined.

As explained in Part II of this summary it has recently been proposed† to increase the duty on imported spirits from Rs. 6 to Rs. 7 a gallon. This measure, however, is an incident of excise administration and has not been suggested with the object of raising revenue.

Allusion is made to these questions with a view to completing the account of the financial position. They have not of course formed the subject of any formal announcement. But the other statistics and data which are collected in

*Suggestions for  
new or enhanced  
taxation.*

*Views of the Gov-  
ernment of India  
on the material con-  
dition of the people.*

\* Desp. to Secretary of State, No. 337, d. 15th September 1904 (Part III, page 265).

† Desp. to Secretary of State, No. 390, d. 23rd November 1905.

this chapter are for the most part public property, and their bearing on the condition of the people and the policy of the governing power will be interpreted with varying degrees of optimism and sympathy. The attitude of the Government of India themselves was explained in the speech in which the Viceroy wound up the Budget debate of March 1903 :—

“ There is one consequence that I hope may ensue from these measures of financial relief. I hope they may give the public at large, both in India and outside of it, a little greater confidence in the position and prospects of this country. Year after year we have put forward at this table statements of figures and facts tending irresistibly to show that there is a great reserve of economic vitality in India, which not even plague and famine and the expenditure entailed thereby have availed to subdue. We have shown steadily improving revenues, large and increasing surpluses, advances in all the tests that indicate material prosperity. We have even been able from time to time to confer, as we did last year, very large and substantial boons. But there has always remained a school of thought that declined to be convinced. ....

“ There is enough, and far more than enough poverty. There is a great deal more than any one of us can contemplate with equanimity or satisfaction. The size and growth of the population, the character of their livelihood, and to some extent their own traditions and inclinations, render this inevitable. But I do not believe that the people are getting poorer. On the contrary, I hold that they are making slow but sure advances, and that in normal conditions this progress is certain to continue.”

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## Statement of Revenue and Expenditure.

Revenue Heads.					1898-99 (Accounts).	1905-06 (Budget Estimates).	
					Net Receipts.	Net Receipts.	Increase (+) Decrease (-).
					£	£	£
Land Revenue (excluding that due to Irrigation) ..					14,844,573	15,854,000	+ 509,427
Opium ...					2,230,308	3,636,800	+ 1,406,492
Salt ...					5,508,490	3,625,300	- 1,878,190
Stamps ...					3,063,217	3,640,700	+ 577,483
Excise ...					3,620,613	5,128,100	+ 1,507,487
Provincial Rates ...					2,572,505	2,735,600	+ 163,095
Customs ...					2,988,935	4,077,600	+ 1,088,665
Assessed Taxes ...					1,252,145	1,250,900	- 1,245
Forests ...					576,432	673,600	+ 97,168
Registration ...					127,501	153,800	+ 26,299
Tributes ...					579,550	412,700	- 166,850
TOTAL REVENUE					37,354,269	40,689,100	+ 3,334,831
Expenditure Heads.					Net Charges.	Net Charges.	Increase (+) Decrease (-).
					£	£	£
Debt Services ... Interest ...					1,311,263	559,500	- 751,763
Commercial Services ...					Post Office ...	61,800	+ 61,119
					Telegraphs ...	125,300	+ 161,415
					Railways ...	1,564,200	- 2,184,365
					Irrigation ..	161,900	+ 17,860
Other Public Works ...					Military ...	1,104,000	+ 332,507
					Civil ...	5,092,100	+ 2,420,277
Mint ... Mint ...					23,713	17,800	- 5,913
Civil Departments ...					General Administration ...	1,500,700	+ 193,918
					Courts of Law ...	2,147,100	+ 343,725
					Jails ...	511,000	+ 30,689
					Police ...	3,230,500	+ 734,160
					Marine ...	421,400	+ 119,685
					Education ...	1,633,100	+ 721,296
					Ecclesiastical ...	125,900	+ 11,945
					Medical ...	986,700	- 33,515
					Political ...	670,100	+ 68,109
					Scientific and Minor Departments.	645,000	+ 345,675
Miscellaneous Civil Services ...					Superannuation ...	2,750,400	+ 305,389
					Exchange ...	54,700	- 26,072
					Miscellaneous ...	137,700	+ 80,284
					Other Heads ...	1,010,400	+ 43,672
Famine Relief and Insurance					Famine Relief ...	211,700	+ 184,997
					Other Heads ...	788,300	+ 23,460
Army Services ...					13,386,016	19,607,900	+ 4,221,884
TOTAL EXPENDITURE					33,735,162	41,155,600	+ 7,420,438
Provincial Surplus					978,234	1,370,300	- 2,348,534
					34,713,396	39,785,300	+ 5,071,904
IMPERIAL SURPLUS					2,640,273	903,800	+ 1,737,073

## CHAPTER VII.—PROVINCIAL FINANCE.

*Origin of Provincial Settlement system.*

The questions discussed in the last chapter have an intimate bearing on the problem of Provincial Finance. The need for some system of financial decentralization was recognised as soon as the administrative activity which followed the Mutiny began to stimulate the demands of the provinces upon the common purse, of which the Imperial Government then retained the absolute control; and an ingenious system was devised by Lord Mayo in 1871, and elaborated by Lord Lytton in 1877, which for the first time "made apparent requirements dependent upon known available means." The provinces were financed by assignments of definite proportions of the revenues which they administered, that is to say, of practically every important head except opium, customs and salt. From the revenues so assigned they were required to meet practically the whole of the cost of civil administration as well as definite proportions of the cost of tax collection. They were thus encouraged both to develop revenue and to economize in expenditure.

*Its working.*

The system of Provincial Settlements for some time worked well, but it contained defects which were accentuated by unfavourable external conditions, and have become still more prominent as the financial bias which governed the inception of the scheme has given place to a growing recognition of the claims of administrative progress. The difficulties arising from the course of exchange necessitated repeated readjustments in favour of Imperial revenues. These readjustments were made at fixed intervals—a circumstance which put a premium on extravagance by encouraging the provincial authorities to increase expenditure to the full extent of the growth of revenue, and so leave themselves nothing in hand for the Imperial Government to appropriate. If they refrained from adopting this expedient they demurred to being made to suffer for the sense of public duty which had restrained them. The resulting friction might possibly have been avoided if the revenues assigned to the Local Governments had been less expansive, but, relying upon the periodical opportunities for revision, the Government of India devoted most of their attention to the determination of the amount, rather than the composition, of the initial assignments; and this again was a highly controversial process. The system at last completely broke down when provincial resources were depleted by continuous famine, and certain provinces were for several years financed directly by the Imperial Government. It was recognized for a long time that the system must be reformed, but till financial stability was restored by the establishment of the gold standard it was impossible to confer upon the Local Governments any permanent financial independence except by fixing their assignments on a very low scale, and authorizing them to make up the deficit by special provincial taxation. Such a scheme was in fact discussed, but it was open to serious objections, and Lord Curzon's Government, on whom the decision rested, felt compelled to abandon it.

*The new scheme of quasi-permanent settlements.*

Their alternative proposals were submitted\* to the Secretary of State in 1902, and subsequently circulated for the criticism of Local Governments, by whom they were cordially welcomed. The cardinal feature of the new scheme is that the settlements are of a permanent character, that is to say, no definite period is prescribed for their duration. The Government of course reserve the power to revise or modify the assignments

\* Despatch to Secretary of State, No. 318, d. 30th October 1902 (Part III, page 231).



in case of necessity, but it is their intention only to do so "when the variations from the initial standard of revenue in any province have, over a substantial term of years, been so great as to result in unfairness either to the province itself or to other provinces or to the Government of India, or in the event of the Government of India being confronted with the alternatives of either imposing additional taxation or of seeking assistance from the provinces." It is certainly not impossible that one or other of these occasions for revision may arise. The contingency is even a probable one. But in the present prospects of finance it is not likely that revision will be frequent, and in any event it is a considerable advantage that it should not be prearranged from the first.

The Government of India proposed to determine the question of inequality as between any two parties by an occasional examination of the growth of the assigned revenues and of the share reserved as Imperial. In the past the rate of growth of provincial funds has been a little over 2 per cent. It is not intended to apply this standard as a rigid arithmetical test, but as a rough guide to what under normal conditions may be considered a fair rate of progress. The real safeguard against inequality lies in the careful determination of the initial assignments, especially as regards the allotment of growing revenues. In fixing the amount of the assignments the usual controversies were avoided by the settlement of the more important points in personal consultation. Allowance was also made in a number of cases for projected administrative improvements and reforms. In particular the Supreme Government proposed to make special provision for the additional expenditure involved in the recommendations of the Police, Education, and Irrigation Commissions, and large sums have already been granted in pursuance of that undertaking. In determining the composition of the assignments, the Government of India did not claim for their own expenditure a greater inherent expansiveness than they admitted in the case of the ordinary civil charges for which the Local Governments are responsible. They were willing in principle to divide the growing revenues in proportion to the existing scales of Imperial and provincial expenditure. In practice the proportions in which the shared heads of revenue should be divided to secure this result were considerably modified in favour of the Local Governments, and the Imperial Government ultimately made assignments which on the whole were not less expansive than those of previous settlements. The process of levelling up, which went on to some extent under the old system, was carried a stage further by the grant of specially favourable terms to the backward or distressed provinces. An improvement was also effected by the enlarged scope of the new settlements. The whole of the administrative expenditure which is treated for account purposes as representing the cost of collecting the land revenue was in most cases provincialized; and the Local Governments were given an effective interest in the increasingly important head of irrigation. Finally, in the two most recent settlements (Bombay and the Central Provinces) the Government of India have introduced an entirely new principle by guaranteeing Provincial revenues against a decline in the yield of the land revenue below certain named amounts. These provinces have also obtained a larger share of their own revenues than those which were first resettled, and the evident tendency is to approach more and more closely to an equal division of the divided heads.

*Extent of its application;*

The provinces which have been resettled under the new system are Bengal, Madras, Bombay, the United Provinces, the Punjab, the Central Provinces, and Assam. Berar has also been brought under the operation of the scheme by its amalgamation with the Central Provinces. In the newly formed North-West Frontier Province and in Baluchistan the conditions were not ripe for a quasi-permanent settlement, and Burma also has been temporarily excluded as it had only recently been resettled when the revised scheme came into force. The settlements with Bengal and Assam already require revision in consequence of the constitution of the province of Eastern Bengal and Assam in October 1905.

*and financial results.*

It is difficult to state the exact financial results of the new settlements. Imperial expenditure is met from the receipts under wholly imperial heads supplemented by the Central Government's share of the net revenues which it divides with the Local Governments. If the settlements of 1897 had been in force in 1905-06, the Government of India would have had at their disposal for expenditure on imperial purposes something over £1 million more than the sum which actually fell to their share in that year under the revised terms of distribution. But this statement gives an exaggerated idea of the additions to provincial resources which are directly attributable to the new settlement system. As stated in the last chapter some of the settlements of 1897 had broken down before revision: Bombay and the Central Provinces for example were receiving large grants from Imperial revenues almost every year, and without these grants the civil administration of these provinces could not have been carried on. Apart from this, the terms of the 1897 settlements had been definitely modified before revision by various adjustments. As the settlements were revised in different years it happened that some of the grants mentioned in the last chapter were made before revision and were merely repeated or allowed for in the new settlements. On the other hand, the grants were in some cases allotted after revision and to that extent the statement that £1 million of Imperial revenue has been alienated falls short of the facts. It has also to be noted that the assistance given to the provincial administrations was not confined to a liberal apportionment of revenue but included also large initial grants aggregating for the seven provinces more than £1½ millions. These grants represent sums available from surplus and were given to start the Local Governments on their career of financial independence with a reserve to meet immediate requirements for which it would have been unsuitable to make permanent recurring provision.

*Its advantages.*

The advantages to be gained from giving a qualified permanence to the provincial settlement system were enumerated\* by the Government of India in the following words:—

“The periodical discussions which attend the quinquennial revision will either disappear once for all, or at least be confined to rare occasions. No Local Government will be under any inducement to expend its resources in haste and without due forethought, in order to avoid their resumption or curtailment in favour of the Imperial Exchequer. The fruits of their good management will be secured to them with a desirable approach to permanence, instead of for a short term of years. And their financial independence will be as real and complete as is compatible with the fundamental relations subsisting between them and the Imperial Government. In particular it will be possible for them to guarantee† from Provincial revenues the

\* Desp. to Secretary of State, No. 318, d. 30th October 1902 (Part III, page 231).

† Effect has already been given to this suggestion by the formulation for the Secretary of State's sanction of the terms on which it is suggested that such guarantees should be permitted. Certain difficulties pointed out by the Secretary of State in his reply are still under examination. [Desp. to Secretary of State, No. 326, d. 8th September 1904 (Part III, page 241), and despatch from Secretary of State, No. 172, d. 9th December 1904.]

funds required for the construction of Local or Provincial light railways, which are of such urgent importance for the development of the country. Under the present arrangement of short term settlements any such guarantee would be illusory, and none are permitted."

Apart from its intrinsic importance as indicated in the foregoing quotation this measure is in other respects characteristic and noteworthy. It is interesting, in a negative way, as involving the definite rejection of a very grave alternative—the delegation of taxing powers to subordinate authorities. It illustrates the far-reaching if indirect effects of a sound monetary system. And it forms the principal contribution which the Government can offer on the financial side to the problem of administrative reform in which other departments are more prominently and directly engaged.

Thus rounded off, the history of recent finance presents a scope and completeness which are rarely attainable in Indian administration. The successful handling of the currency question, and the favourable conditions which made success possible, have offered a signal opportunity for constructive work. From this starting point there has been a measurable advance in every direction: in the policy of railway and irrigation finance which so directly affects the resources of the people; in the relations of the State to commerce and industry through which the same problem is attacked by another route; and in the domain of administrative finance where the Exchequer co-operates with other departments in carrying out the primary purposes of civil government. But the fullest chapter of Indian administration must in the main be a development of what has gone before; and what is new becomes an outline for later chapters to fill in. In closing this summary it is fitting to repeat the words\* in which Lord Curzon, after reviewing the principal events of the first term of his Viceroyalty, took occasion to emphasize this point: "Perhaps it may be found that India has emerged from this period with . . . her industries and commerce brought up to a higher state of efficiency, her administrative machinery in better repair, her credit re-established, her currency restored, and the material prosperity of her people enhanced. We shall not deserve the main credit, because we have profited by the efforts of those who have preceded us."

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\* Speech in Legislative Council on the 31st March 1904.



**PART II.**  
**DEPARTMENTAL HISTORY.**



## CHAPTER I.—INTRODUCTORY.

The Members of Council responsible for the administration of the Finance Department during Lord Curzon's Viceroyalty were the Hon'ble Sir James Westland, K.C.S.I. (till the end of March 1899); the Hon'ble Mr. (afterwards Sir) Clinton Dawkins (during 1899-1900); the Hon'ble Sir Edward FitzGerald Law, K.C.M.G., K.C.I.E. (from April 1900 to January 1905); and the Hon'ble Mr. E. N. Baker, C.S.I. (from January 1905 onwards). Mr. J. F. Finlay, C.S.I., officiated as Member for six months during Sir Edward Law's absence on leave in 1902. The Hon'ble Mr. J. P. Hewett, C.S.I., C.I.E., was appointed to be the first Member in charge of the Department of Commerce and Industry on its creation in March 1905. The other principal appointments connected with the two departments were held by the following officers :—

## Secretary in the Finance Department—

- Mr. J. F. Finlay, C.S.I.
- „ H. H. Risley, C.S.I., C.I.E. (offg.).
- „ E. N. Baker, C.S.I.
- „ W. S. Meyer, C.I.E.

## Deputy Secretary in the Finance Department—

- Mr. W. S. Meyer, C.I.E.
- „ H. J. McIntosh.
- „ R. A. Mant.
- „ J. B. Brunyate.

## Comptroller General—

- Mr. A. F. Cox, C.S.I.
- „ O. T. Barrow (offg.).

## Salt Commissioner, Northern India—

- Mr. R. M. Dane, C.I.E.
- „ L. W. King, C.S.I. (offg.).
- „ R. A. Gamble (offg.).

## Secretary in the Department of Commerce and Industry (from 1905)—

- Mr. W. L. Harvey, C.I.E.

## \*Director-General, Post Office—

- Sir Arthur Fanshawe, K.C.I.E., C.S.I.
- Mr. H. M. Kisch, C.S.I. (offg.).
- „ C. Stewart-Wilson (offg.).

## \*Controller of Printing, Stationery and Stamps (from 1904)—

- Mr. M. J. Cogswell.

## Director-General of Commercial Intelligence (from 1905)—

- Mr. F. Noël-Paton.

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\* These two appointments were transferred to the control of the Department of Commerce and Industry when the latter was constituted in March 1905.



## CHAPTER II.—COINAGE.

1. *Introductory.*—The first part of this summary deals with the establishment of the gold standard; the issue of a universal currency note; the question of amalgamating the Presidency Banks; railway and irrigation finance; various changes in the system of accounts, and the famine insurance policy; the growth of revenue and expenditure, and the remission and readjustment of taxation; and provincial finance. There remain however a number of miscellaneous financial questions which must now be examined.

2. *Currency Reform in Native States.*—The first of these is the progress of currency reform in Native States, which deserves a fuller notice than the brief allusion contained in the first part. Prior to British rule the principal Native States had acquired the right of maintaining their own mints and special currencies. So long as their mints and those of British India were open to the free coinage of silver the British rupee and the local currencies normally exchanged at a rate corresponding to the quantity of silver contained in each, since both circulated at approximately their intrinsic value. The Native States generally followed the example of the Indian Government and closed their mints after a longer or shorter interval, but they were not so resolute in refraining from further coinage. Even with mints strictly closed in both cases, the local currency and the British rupee did not necessarily follow the same course. The actual result was that though the currencies of Native States generally circulated at a rate above their bullion value, they were not so highly appreciated as the rupee, and exchange with British India fell. This exchange also became exceedingly unstable. In the small areas in which these currencies circulated any local disturbance was sufficient to cause violent fluctuation. In Radhanpur for example the withdrawal of local coin into state hoards sufficed for a time to appreciate it even more than the British rupee. But four months of famine largely increased the volume of the Radhanpur circulation by releasing the hoarded coin for expenditure on famine relief, and simultaneously increased the imports of food stuffs from British India and reduced the exports, thus creating an unfavourable balance of trade which had to be adjusted in British rupees. The result was that the value of the local coin as expressed in rupees fell by 20 per cent. No other state attained even this temporary success, but in other respects the example is typical. Rates which had previously been fairly well maintained fell with a bound in the general famine, and the subsequent recovery was by no means complete. In some instances the states had further depressed exchange by requiring payment of land revenue or specified taxes in British coin, thus limiting the field for the employment of their own currency.

Till 1893 the Native Coinage Act of 1876 had enabled Native States to secure the advantages of the British Indian currency system without completely forfeiting the privilege of a distinctive coinage. Rupees were coined for them at the Government mints similar to the British rupee in weight and fineness and accepted in British India as legal tender, but bearing a special design which marked them as the coinage of a ruling chief. As a matter of fact, only two small states took advantage of the Act. On the closure of the mints it became practically obsolete, and the ruling chiefs had no course but to adopt the Imperial currency outright or retain their own with all its increasing disadvantages. When the misfortunes of the famine period had inclined them to the former course, it became a question what terms the Government should

offer. In the case of Bhopal and Kashmir the Government had agreed to take over the local currency at a rate of exchange corresponding to the current market rate, and a large advance had been given to Bhopal to finance the operation. But the Government were disposed in the case of the smaller states to insist that if a ruling chief wished to reform his currency he should buy it up at the current rate and sell it as bullion—a transaction which would involve considerable loss.

It was unlikely that reform would be generally attempted on these terms, though several of the smaller states, chiefly in Central India, have since substituted British for native currency without actual conversion. Lord Curzon's Government considered that the advantages of a unification of currency to the subjects of Native States were so great that the utmost possible encouragement should be given when once a strong movement in this direction declared itself. To the larger and smaller states alike they were willing to concede the benefit of any existing appreciation in the local currency. Whenever it was possible they advanced a sum of rupees, free of interest, with which to undertake the conversion; and though there was some risk of excessive coinage in agreeing to take up the coin in hoards at the favourable rate as well as the much smaller amount in active circulation, they have preferred to fix the maximum amount to be taken at a liberal sum. A specific example will make these points clearer. The Government gave Navanagar Rs. 100 for every 435 koris, though at the current rate that number of koris was worth only Rs. 92 and their bullion value was only Rs. 77. On the other hand, as the Government could coin about Rs. 114 out of 435 koris, there remained in their hands after deducting expenses a profit of about 12 per cent which went into the Gold Reserve Fund. To finance the operation the Government advanced Rs. 5 lakhs. With this grant the state began calling in its coin, and by the time it was exhausted further rupees coined from the retired koris were returned from the mint, and thus the process went on continuously to completion.

By these liberal but not injurious concessions a great advance has been made towards uniformity of currency throughout British India, with a corresponding gain to internal trade. Baroda\* (Rs. 361 lakhs) and Jodhpur (Rs. 91 lakhs) adopted the British rupee in 1900-01, and have since been followed by Navanagar (Rs. 46 lakhs), Radhanpur (Rs. 9 lakhs), Kotah and Jhalawar (Rs. 38 lakhs), Cambay (Rs. 14 lakhs), Indore (Rs. 305 lakhs), Khairpur (Rs. 1½ lakhs), and Sirohi (Rs. 8 lakhs). The number of Native States which maintain their own mints has thus been reduced from 27 in 1893 to 13. Conversion operations have also been undertaken by the Karauli State, and are now proceeding. The States of Dungarpur, Partabgarh, and Banswara have demonetized the Chitori and Salimshahi rupees which are widely current in Rajputana, but the attempt to buy up the local coin on the lines adopted elsewhere proved a failure, as only a few hundred were offered for exchange at the accepted rate. There is reason however to believe that the demonetized currencies will be rapidly absorbed by adjoining states without hardship to present holders.

These conversion operations have raised many points of interest and sometimes of difficulty. In some states several varieties of coin were circulating concurrently and were simultaneously recalled. Frequently the local currency had a large circulation in neighbouring territory and it was necessary to prevent its re-importation or secure the co-operation of the adjoining states. Thus

*For. Dept. letter  
No. 2901-I. A., d.  
3rd Aug. 1897.*

*e.g., Baroda.  
For. Dept. letters  
Nos. 1937-I. A., d.  
4th May 1900 (Part  
III, page 245) and  
2944-I. A., d. 7th  
July 1900 (Part  
III, page 247).*

\* The numbers in brackets indicate the number of British rupees substituted for the local currency.

the Indian Government assisted in the Baroda conversion by themselves recalling Rs.  $1\frac{1}{2}$  crores worth of Babasai rupees circulating in British districts. The states again have sometimes seemed disposed to utilize the change of currency as an occasion for a readjustment of their public obligations and demands. There has always been a strong wish to obtain a much more favourable rate for conversion than that actually current, but experience has shown that such a concession chiefly benefits speculators who buy up the coin at somewhere near the market rate and tender it to the state treasury at the better rate fixed by the Government. In one instance the coin to be recalled was circulating at less than its bullion value. In Baroda it was found after all other arrangement had been made that it would be necessary to add nearly £2 millions worth of fine silver to bring up the low touch Babasais to rupee fineness, and refining apparatus had to be ordered from England. There has frequently been some inconvenience in coining for native states while the mints were already fully occupied on Government work. But these difficulties have been arranged; and now that an effective commencement has been made there are additional inducements for other states to follow. They can incur no discredit in imitating an example set by the leading chiefs; and are in danger of being inconveniently isolated if they stand out and find their coin returned from neighbouring states which have no further use for them after adopting the British rupee.

3. *Metric system.*—The revision of the Imperial coinage system has also received much attention. This proposal to introduce the metric system may be noticed under this head. This suggestion, which was discussed at the instance of the Secretary of State, applied to weights and measures generally as well as to money. But one of the chief obstacles to its adoption was the fact that the popular unit of money—the rupee—is also the unit of weight. Throughout the country the most ignorant and uneducated know that they have in the rupee the exact weight of a tola and from it can derive the ser and maund. There might perhaps have been some advantage in applying the decimal system to the subsidiary coinage. But the effects of such a change were very questionable. Only a very slight alteration in value is needed to make 200 pies equal to the rupee, instead of 192 as at present. But the very smallness of the change is its principal danger. The customary wages of the poor could scarcely adjust themselves to so slight a difference and, if not, would in effect be lowered by four per cent. With all the roads marked out in miles and the revenue surveys in acres, and the foot a unit in universal use, it was out of the question to apply the system to measures of length and area. The Government of India accordingly preferred “to wait until the United Kingdom has decided to adopt the decimal system.”

*Desp. to Secy. of State, No. 190, d. 13th June 1901.*

4. *Copper Coinage.*—Though such a change was obviously impracticable, it has been recognized that the existing subsidiary coinage is not entirely satisfactory, and the experience of other countries has shown how improvement can be effected. The pie piece as well as the double-pie is in little favour, and in some parts of India the copper coinage has been unable to displace the lumps of copper or “dumpy pice” issued (they can scarcely be said to be minted) in Nepal and elsewhere, though the use of these has been as far as possible discouraged by orders prohibiting their acceptance by Government and quasi-Government departments. There is also a curious gap in the subsidiary coinage which offers a specially favourable opportunity for experiment.

*Resolution 1227-A, d. March 1899.*

*No. 16th*

The sub-divisions of the rupee go down to the two-anna piece in silver, and from the half-anna to the pie in copper. But even the two-anna piece is too small for convenience, while the half-anna or double-pice (weighing one-third as much again as the English penny) is cumbrously large, so that there has been no possibility of coining an anna piece unless a new metal was used. In the last half century nickel has been largely substituted for copper and bronze in the coinages of Europe and elsewhere. It is very hard, and therefore difficult to counterfeit; for the same reason it loses little by wear and tear; and it is also clean and cheap. It was therefore suggested that a nickel one-anna piece should be tried in India with the idea of extending the use of nickel to other coins if the experiment should prove successful. The proposal was referred to and favourably received by Local Governments, and has since been approved by the Secretary of State and incorporated in the draft Coinage Bill. There has been some difficulty and delay in devising a suitable design. To make the coin readily distinguishable from others it was proposed to perforate it. But in view of the impossibility of including a satisfactory effigy of His Majesty the King Emperor in the design of a perforated coin, and the technical objections to perforation, it is now intended instead to give the coin a scalloped in lieu of the usual circular rim. It is expected that the new coin will soon become widely current and enough metal is to be obtained in the first instance to coin 160 lakhs of pieces.

*Desp to Secy. of State, No. 15, d. 19th Jan. 1905 (Part III, page 250).*

Simultaneously the Government of India have taken up the question of replacing the existing copper coinage by bronze, a harder and cleaner metal and one which is better suited for minting. This change, which it has now been definitely determined to make, will apply to the pice, half-pice and pie. The double-pice is almost uncurrent and is no longer coined, but if it should ultimately be decided to introduce an improved coin of this denomination, the metal to be used will no doubt be nickel. It is expected that the process of converting the subsidiary coinage from copper to bronze will extend over fifteen to twenty years.

*Desp to Secy of State, No. 9, d. 5th Jan. 1905 (Part III, page 252).*

Under this head may be mentioned the recent orders of the Government prohibiting the importation into British India by sea or by land of copper or bronze coin not being King's coin. This measure does not apply to the copper coinage of Native States except Baroda, the coinage of which was already excluded under orders of 1893. The principal object is to prevent the importation of Muscat pice and the loss which consequently falls on ignorant holders.

*Commerce Dept. Notification No. 4860-C., d. 8th Sep. 1905.*

5. *Silver coinage.*—The accession of His Majesty King Edward VII necessitated a change in the various coinage designs. After long consideration the new design for the rupee was submitted, and received His Majesty's approval in April 1902, but the matrices received from England were defective and the new issues did not begin till 1903. The designs of other coins were similarly altered, but otherwise the silver coinage has remained unchanged.

*Desp. to Secy. of State No. 296, d. 24th Sep 1903.*

6. *Protection of the coinage.*—Continuing the policy of recalling old and worn rupees the Government in 1901 and 1902 directed the withdrawal and recoinage of the first and second issues of 1840. This was a measure of precaution, for the bulk of these coins still had some years wear in them. Again in August 1902 the Government directed, with a view to securing greater vigilance in the withdrawal of light weight coins, that remitting officers should not be credited with the full nominal value of light coins

*Letter No. 4250-A., d. 5th Aug. 1902.*

*Paras 73-83 of Finl. Statement for 1905-06.* included in their remittances unless they had detected and cut them. Investigations connected with the withdrawal of the older issues having shown that the maximum loss of weight which can be presumed to be due to reasonable wear is not more than 4 per cent, it was proposed to discontinue the practice of accepting at their full face value rupees which had lost as much as  $6\frac{1}{4}$  per cent in weight, but the proposal was withdrawn in deference to objections raised in banking circles. The whole question is still under consideration. It is probable that no change will be made in the terms on which short weight coins have hitherto been accepted from the public or in the present legal limit of tolerance (2 per cent). But efforts will be made to maintain the currency at the high standard which this limit contemplates by the use of improved appliances for the weighment of coin in Government offices.

Much attention has also been paid to counterfeiting. From the ordinary crude imitation cast in a mould there is little to fear. But it has always been recognized since the closing of the mints that the high appreciation of the rupee may create a class of expert counterfeiters using modern striking machinery. In the last few years special arrangements have been made to ensure the submission to Government of the fullest information and statistics regarding coinage cases, returns of counterfeit coins being submitted by the mints on information received from Local Governments, and further particulars elicited in police and judicial proceedings being submitted directly from the provinces. The more effective withdrawal from circulation of coin which has been illegally dealt with has also been promoted by instructions to the mints to accept at bullion value consignments of soldered coin sent by railways, and by an extension of the power of cutting and breaking coin to all officers in charge of sub-treasuries, and it is now intended to give the same power to selected private firms. Orders were also issued for the transmission of statements of counterfeitings received by railways. The Native States which have adopted the British currency have also been requested to co-operate in the maintenance of the purity of the coinage by assimilating their law against counterfeiting to that of British India, and by putting into effect in their territories the rules for the cutting and breaking of light coin.

*Resolution No. 1004-A., d. 21st Feby. 1901.*  
*Home Dept. letters Nos. 840, 843, and 852, d. 28th Nov 1901.*  
*Letter No. 4856-A., d. 5th Oct. 1900.*  
*Resolution No. 5599-A., d. 8th Dec. 1899.*

*For Dept letter No. 4957-I. A., d. 31st Oct. 1902.*  
*For Dept. letter No. 4020-I. A., d. 17th Sep. 1902.*

For several years it was considered that there was no real evidence of any general increase in counterfeiting and specially of the adoption of improved methods. But a somewhat disturbing possibility was opened up by a report received at the end of 1902 from which it appeared that some expensive English medal-stamping machinery had recently been imported which was suited for minting purposes and seemed to be probably intended for that use. The question of legislating to control the import and possession of such machinery was discussed, but the proposal was abandoned as involving undue interference with legitimate trade. The utmost that is possible is to prohibit the manufacture and possession of dies bearing devices resembling the device of coin, and as such a measure would probably be ineffective, it is not likely that the Government of India will proceed with it.

At the same time the coining figures appeared to be on the increase and some coins were sent up about which the mint authorities could not agree as to whether they were counterfeitings or genuine. As the Police Commission was then sitting the opportunity was taken to have the matter fully examined by a body of experts, and certain selected officers were also placed on special

duty to collect information about coining generally and more particularly regarding the coinage of rupees of correct weight and fineness. The reports of these officers show that there is no reason to believe that the coinage of good rupees with modern machinery or on a large scale is practised, but coins produced from moulds are said to have attained a considerable degree of excellence. Various measures have been suggested both for the improvement of detection and for increasing the mechanical difficulty of counterfeiting. Under the latter head comes the proposal, since abandoned on technical grounds, to substitute raised lettering for milling on the rim of the coin. Probably these enquiries have been most fruitful in co-ordinating and stimulating detective effort and in mitigating apprehensions as to the purity of the coinage which might otherwise have been widely entertained.

7. *Amendment of Coinage Act.*—The Indian Coinage Act, XXIII of 1870, has been twice amended in connection with the establishment of a gold standard, and certain further amendments have since become desirable. The Government of India have therefore obtained the Secretary of State's sanction to the introduction of an amending and consolidating Bill. Among the changes which the Legislative Council has been asked to approve the following are the most important:—

*Desp to Secy. of State, No. 417, d. 10th Nov. 1904 (Part III, page 255).*

- (i) Reference to the coinage of gold in India is to be omitted.
- (ii) Power will be taken to coin pieces of nickel and bronze.
- (iii) The provisions relating to counterfeit coin and coins reduced in weight are to be altered and improved.

It was originally proposed to enact that the half-rupee, which is now unlimited legal tender, should in future be legal tender up to Rs. 10 only, and also that silver coin duly called in should cease to be legal tender as between private persons; but these suggestions have been negatived by the Secretary of State.

8. *The Mints.*—When the free coinage of silver was discontinued in 1893, the two mints were temporarily unemployed, and the Government contracted with the Exchange Banks for the coinage of British dollars for Hong Kong and the Straits Settlements at the very low charge of Re. 1 per cent. Subsequently when rupee coinage recommenced there was occasionally some difficulty and inconvenience in executing the dollar coinage, and at one time it had to be suspended altogether. Accordingly in April 1903 the Government moved the Secretary of State to give notice of the termination of the agreement. They were willing however to enter into new agreements providing for a seigniorage of 2 per cent., and leaving them absolute discretion to suspend the coinage of dollars temporarily when the mints were otherwise fully employed. No new agreements have yet been concluded, but the Mint Masters are permitted to accept tenders if the tenderers agree to be bound by certain rules in which these conditions have been embodied. About the same time the Government agreed to undertake the coinage of special dollars for the administration of the Straits Settlements in connection with the establishment of a gold currency in that colony. The terms arranged were similar to those offered to the Banks except that the rate of seigniorage is  $1\frac{1}{2}$  per cent. and the Government agreed to give priority to the requirements of the colony.

*Desp to Secy. of State, No. 82, d. 16th April 1903.*

*Lttr No. 4815-A., d. 2nd Aug. 1904.*

*Telegram to Secy. of State, No. 2726-A., d. 13th May 1903.*

In 1902 the Government considered a proposal to replace the existing mints at Calcutta and Bombay by one large mint at or near Bombay. The Chambers



*Letter No 747- of Commerce were consulted and, except at Calcutta and Cawnpore, were  
A, d. 6th Feby. 1902.* disposed to accept the proposal if assured that it would involve no reduction in the amount which the present mints can coin on emergency. The proposal was however dropped in deference to the opposition at Calcutta and in view of the advantage of having a second mint to rely upon for urgent coinage in the event of one being closed through war, epidemic or labour troubles. The Government have since addressed themselves to the improvement of the appliances of their existing mints, and with this object they have agreed to the working and lighting of the Calcutta Mint by electricity, and have deputed two experts *Desp to Secy. of State, No. 69, d 16th Feby. 1905.* to study machinery and methods in America.



## CHAPTER III.—PUBLIC DEBT AND OTHER FINANCIAL QUESTIONS.

1. *Increase of Debt.*—The following figures show the amount added to the permanent debt in Lord Curzon's Viceroyalty :—

		Sterling. £	Rupee. Rs.
Capital of debt on 1st April 1899	...	119,768,605	1,12,65,46,980
Capital of debt on 31st March 1906	...	137,221,044	1,26,07,93,035
Increase	..	£ 17,452,439	+ Rs 13,42,46,055=£26,402,176

Part I of the summary contains the figures for railway and irrigation expenditure, and shows how the interest charge for unproductive debt is being rapidly reduced. It need only be added here that the apparent addition to the sterling debt includes a net amount of £5,628,850 on account of undischarged debentures of the Great Indian Peninsula and the Bombay, Baroda and Central India Railways which were taken over when these became state properties; and that the total amount spent in the seven years on productive works and loans to native states, local bodies, and cultivators, was £40,337,641, or £13,935,465 in excess of the gross addition to the aggregate debt.

2 *Rate of Borrowing*—The average price of the 3 per cent. sterling loans has varied between £95½ (the fixed issue price) in 1900-01 and £101½ in 1902-03. The following statement tabulates the results of the 3½ per cent. rupee loans raised during the period under review :—

Date of issue.				Amount of loan.	Amount tendered.	Average rate of accepted tenders.
				Rs.	Rs.	Rs A. P.
4th July 1900	...	...	...	3,00,00,000	3,98,10,400	94 0 1
14th August 1901	...	...	..	1,00,00,000	5,45,58,130	97 4 10
9th July 1902	...	...	...	1,50,00,000	4,47,72,300	97 9 10
22nd July 1903	...	...	..	2,00,00,000	4,96 00,835	98 4 7
13th July 1904	...	...	..	3,00,00,000	8,06,54,600	97 9 2
2nd August 1905	...	...	..	4,00,00 000	19,26,86,200	98 13 10

The lowest rate was received in the famine year 1900-01. The most recent loan was singularly successful in respect both of the amount offered and the average rate at which it was tendered. The Government have not again attempted to float a 3 per cent. rupee loan as in 1896-97. The small issue of that year is now practically unsaleable, and the market is deprived of the use of the resources locked up in it. The Government proposed in 1901 to convert it into 3½ per cents., but the Secretary of State only agreed on the condition that the holders surrendered one-seventh of the face value of their stock, and the matter was dropped. The 3½ per cent. rate has now been given a longer currency, as the loans of the last five years are not repayable till 1920, all earlier issues having determined in 1904.

3. *Rupee borrowing.*—Several proposals have been put forward in the last few years with the object of enlarging the basis of the rupee loans, and also of

*Desp to Secy. of State, No. 146, d. 16th May 1901 (Part III, page 258).*

taking advantage of stability of exchange to obliterate the sharp distinction which the investor now makes between the rupee and the sterling securities of the Government of India. The Indian market is almost always very restricted. The amount of the annual loan has to be very carefully adjusted to the conditions of the moment, and has frequently to be placed at so low a figure that a few powerful institutions like the Presidency Banks can practically "corner" it. It was suggested in 1903 that it might be better to raise the permanent rupee

*Desp. to Secy of State, No. 25, d. 12th Feb. 1903.*

loans in larger amounts at longer intervals, the requirements of intermediate years being met by temporary borrowing, but the idea did not meet with the Secretary of State's approval. The Government of India also attempted to extend the field for rupee borrowing by attracting the small investor. With this object loan notifications were published through the Post Office, and the Government undertook to receive tenders transmitted by post for amounts not less than Rs. 100. But the results were discouraging and it has recently been decided to discontinue the experiment. One of the difficulties which face the small investor is that in the absence of a fixed price, or even a declared minimum, he has no guidance as to the proper rate to offer. It was accordingly suggested that loans should be issued at a fixed price and partly underwritten. But after discussion in Council the proposal was negatived. More success may be anticipated from an amendment of the Post Office Savings Bank rules in 1904 permitting the investment in Government paper of sums of not less than Rs. 10 free of all fees, commission and brokerage, and also of income-tax, and providing that such investment should be automatic for deposits exceeding a certain amount. The further simplification of these rules is now under consideration.

*Resolution No. 5205-A, d. 20th May 1904.*

4. *Enfaced paper.*—In 1903 the Government rejected the request of certain Chambers of Commerce that the interest on existing rupee stock enfaced for payment in London should be guaranteed at a fixed rate of 1s. 4d. per rupee; and

*Desp. to Secy. of State, No. 189, d. 2nd July 1903 (Part III, page 262) and Desp. from Secy. of State, No. 57, d. 11th March 1904.*

the Secretary of State negatived the Government's own proposal that it should be paid in cash at the current rate of exchange instead of by a draft on India. He was also unable to secure the consent of the Stock Exchange Committee to the Government of India's request that enfaced paper might be quoted in pieces of Rs. 1,500 (corresponding to £100) instead of in pieces of Rs. 1,000, which, when turned into pounds sterling, inevitably suggest to the ordinary English investor that the security is in some way or other depreciated. The Government had themselves adopted a somewhat analogous measure by issuing promissory

*Desps to Secy. of State, No. 149, d. 12th May 1904, and No. 388, d. 20th Oct. 1904.*

notes in lots of the value of Rs. 150 or £10, a sum more likely to appeal to the small investor in England than pieces of Rs. 100 or Rs. 200. The proposal to pay interest on enfaced paper in sterling was subsequently resubmitted but again rejected.

5. *Rupee loans with interest guarantee.*—A proposal to issue rupee loans in London at a guaranteed sterling interest was also negatived. It was put forward by Sir E. Law in the hope that "familiarity with guaranteed paper would gradually lead the British public to look with more favour on unguaranteed stock so that the prices of the two stocks in London would gradually approximate and in course of time unguaranteed paper might be accepted nearly as readily as stock on which the interest is guaranteed." A small loan of this kind had been issued in India in 1879 and was finally paid off in 1899.

*Resolution No. 4119-A, d. 9th July 1903.*

6. *Borrowing by local bodies.*—In 1903 the Government of India notified that they were prepared to consider applications from local bodies for permission to issue sterling loans if there was a reasonable prospect of the

money being raised at a rate of interest not exceeding 4 per cent, and at a price not appreciably below par. Each such application requires previous reference to the Secretary of State, and the local bodies borrowing in sterling will be required to make their own arrangements for remittance in both directions.

In January 1903 the Government of India offered to provide funds for the construction of railways by District Boards in the Madras Presidency, in cases where the Boards had imposed a special cess, to be applied towards railway construction, under section 57, clause (ii) of the Madras Local Boards Act, 1884. The loans were to be granted from the provincial loan account; to carry 4 per cent. interest and to be repayable in 30 years; and it was stipulated that they should be secured by a lien on the entire resources of the Board. This offer was extended in 1904 to District Boards in other provinces which levy a special cess for the construction of railways.

*Public Works  
Dept. letter No.  
12-R P., d. 28th  
Jan 1903.*

*Public Works  
Dept. letter No.  
91-R. P., d. 2nd  
July 1904.*

By Act III of 1904 the most important of the Port Trusts and Municipal Corporations were empowered, with the previous sanction of the Governor-General in Council in each case, to borrow money by the issue of short-term bills and to repay such bills by the issue of a regular loan. The object of this measure is to enable a local body which urgently requires funds for carrying out authorized works in the busy season to obtain temporary accommodation till the conditions of the money market become more favourable. This Act also empowered the selected local bodies, with the previous sanction of the Government of India, to borrow money for the purpose of repaying previous loans, subject to the condition that the term for repayment should not extend beyond the unexpired portion of the period for which the previous loan was sanctioned.

In 1905 the borrowing powers of the Port of Rangoon, which had previously been regulated by the Local Authorities Loans Act, 1879, were defined in a separate self-contained enactment (the Rangoon Port Act, 1905), the consequential amendment of the Local Authorities Loans Act being effected by Act I of 1905.

7. *Grants to local bodies.*—In 1902 the Government of India laid down the following principles for the guidance of Local Governments in contributing from provincial revenues to the cost of municipal water-works and similar schemes of local improvement:—

*Home Dept Letter  
No. 154, d. 14th  
Aug. 1902.*

- (a) that as a general rule the entire cost of local undertakings should be borne by the rate-payers who benefit thereby, and in settling the terms of provincial settlements expenditure in aid of such undertakings must be excluded from the standard figures;
- (b) that the assistance of Government, when required, should usually be given in the form of loans; and
- (c) that when the cost is too heavy to be wholly borne by the local body even with the assistance of a loan, and the work is nevertheless so important and useful that it ought not to be postponed, a grant-in-aid of a portion of the cost may be given by the Local Government from its accumulated surplus, if it has a surplus.

It was also added that in considering the financial position of a local body the Provincial Government should pay special regard to the existing position as regards local taxation in the area in question, and if necessary require taxation to be enhanced.

Letter No. 4033-  
A, d. 10th July  
1905.

The position has, however, been somewhat modified by the greater independence bestowed on Local Governments under the recent quasi-permanent provincial settlements, and on being addressed by the Bombay Government in 1905 on the subject of plague grants, the Government of India while reaffirming the principles laid down in 1902 and referring to earlier rulings regarding the incidence of plague expenditure conceded to the Local Government a discretionary power of giving grants in aid of local funds in special cases without reference to higher authority.

Desp. to Secy of  
State, No. 337, d.  
15th Sep. 1904  
(Part III, page  
265).

8. *Calcutta Improvement Scheme.*—The financing of the Calcutta Improvement Scheme has raised a number of important fiscal questions on which the Government of India addressed the Secretary of State in 1904. The fundamental features of the position were that an enormous expenditure had been shown on sanitary grounds to be imperative and urgent; that it could not be met in its entirety by purely local taxation or by the forms of taxation hitherto accepted; and that as the Government possessed no land or valuable rights in Calcutta which could be transferred to the Improvement Trust they must discharge their obligations to the metropolis by other methods. The question has been under discussion for the last six years. In the proposals submitted to the Secretary of State in 1904 it was contemplated that out of a total estimated capital expenditure of Rs. 822 lakhs, Rs. 336 lakhs would be recovered from the properties benefited by the new roads and open spaces, and Rs. 50 lakhs from a Government grant to which the Secretary of State had already agreed, leaving Rs. 436 lakhs to be raised by borrowing. For the payment of interest and sinking fund charges (on a 60 years' basis) on this loan and for the establishment charges of the trust an annual sum of Rs. 21½ lakhs was required. Of this amount the Local Government estimated that Rs. 3 lakhs would be returned by the land taken up for housing and expansion, leaving 18½ lakhs to be obtained from municipal contributions and special taxation. The main difficulty was to devise a system of taxation which would involve neither an excessive addition to local burdens nor an undue transference of these burdens to the general taxpayer.

As the scheme now stands after some further revision in conformity with the suggestions of the Secretary of State it is proposed that the Corporation shall contribute to the revenues of the Improvement Trust 1½ per cent. on the rateable value of municipal lands and buildings (an assessment which would now yield Rs. 3,60,000 per annum and is constantly increasing in productivity), together with a fixed sum of Rs. 4,64,000 per annum which will become available by the liquidation of one of the municipal loans at the end of 1908. To enable the Corporation to set aside these large sums, while continuing to make full provision for the normal growth of purely municipal requirements, it is further proposed that municipal taxes calculated to yield Rs. 2,60,000 and Rs. 1,50,000 respectively should be imposed upon transfers of immovable property (at the rate of one per cent.) and upon petroleum consumed in Calcutta. By these means an income of about Rs. 8½ lakhs will be assured, leaving rather more than Rs. 10 lakhs to be obtained from special taxation imposed on behalf of the Improvement Trust. For these special taxes a number of suggestions have been put forward from which a selection must eventually be made. The most important are (1) an export duty and excise on jute at the rate of ¼ per cent. *ad valorem* (probable yield Rs. 5,00,000); (2) a terminal tax on railway passengers arriving at or leaving Calcutta stations (probable yield Rs. 2,50,000);

(3) an addition of half a pie per rupee to the Imperial income tax assessed on residents within municipal limits (probable yield Rs. 2,00,000); (4) an addition of 1 per cent. to the existing consolidated rate (probable yield Rs. 2,40,000), or as alternatives, a rate of 1 per cent. on annual value, to be levied on owners only, or a further tax of one per cent. on transfers in addition to that already mentioned; and (5) a tax on timber and firewood and a tax on animals slaughtered for food, the probable yield of which has not been estimated. The possibility of imposing a local tax on successions to immovable property has also been discussed. The ultimate responsibility for the solvency of the Trust must be accepted by the Corporation, and in view of the uncertainty unavoidably attaching to the estimates both of revenue and expenditure it will be necessary to restrict the programme of work with reference to the actual results obtained as each stage is reached.

The scheme of improvement operations and the suggested financial arrangements are based on the reports of a representative committee which sat in 1904, but its recommendations were necessarily of a confidential character and until the present stage was reached it has not been possible to consult a wider circle of public opinion. The Government of India accordingly decided, before committing themselves finally, to publish the whole series of proposals for independent criticism, and till that has been received and considered the scheme must be regarded as provisional and tentative. It is believed however that, subject to possible modifications in matters of detail, no long delay will now take place in carrying it into effect.

The suggested scheme of taxation presents several interesting features. Succession duties as explained in the first part of the summary are impracticable for Imperial purposes and can therefore be made over without objection to a local body; but it now appears probable that they will be found almost equally unworkable as a local tax and must be altogether abandoned. A local addition to the income-tax is new to Indian finance though a common expedient in Europe. The tax on jute was twice negatived by the Government of India and also by the Secretary of State but accepted when it was realized that it was probably less open to practical objections than any possible alternatives. It may be justified by the facts that it will be levied at a light rate which cannot appreciably affect the exports of a monopoly product; that Calcutta is the financial and administrative centre of the jute industry, and the overcrowding which the improvement scheme is to remedy is largely due to the presence of the jute operatives; and that the imposition of a local tax on jute will pave the way for its appropriation to Imperial purposes at some future date. The Government of India have not yet expressed a final opinion on the proposed railway terminal tax, a fiscal expedient which they have hitherto discountenanced. It will fall to a large extent on the poorer classes, and the suggested tax on petroleum, to which it is an alternative, is open to the same criticism. It is desirable however that these classes should be effectively reached by one or other of the special taxes to be imposed.

9. *Amendment of the Paper Currency Act.*—In consequence of the closing of the Mints in 1893 and the introduction of a gold standard it was found necessary to modify the law relating to paper currency as originally formulated in the Indian Paper Currency Act, 1882, by six later enactments, and subsequently further amendment was again required, more especially in connection with the currency reserve transactions involved in the

Home Dept.  
Letter No. 93, d.  
18th July 1905  
(Part III, page 277).

*Desp. to Secy. of State, No. 418, d. 10th Nov. 1904 (Part III, page 62).* purchase and remittance of silver for rupee coinage. It was accordingly decided to consolidate and amend the existing law. The new Act (No. III of 1905) simplifies the transactions above referred to, and in particular provides for the maintenance by the Secretary of State of a currency chest in England, a measure already noticed in the first part of this narrative. It also allows the increase of the currency investment to 12 crores of rupees (which has since been effected), and permits the equivalent of Rs. 2 crores to be held in sterling securities; and it exempts the Government from the obligation to maintain a reserve against notes which have not been presented for payment within certain specified periods, the minimum being forty years.

10. *Currency Note Forgery Act.*—The Indian Penal Code dates from a time prior to the introduction of the Government note issue, and contained no provisions relating specially to the forgery of currency notes, which were accordingly treated as other valuable securities. It was for example no offence to possess a forged note complete in all respects except the signature. This defect was remedied by Act VII of 1899 which added four sections to the Penal Code on the model of the English Law relating to the forgery of Bank notes.

*Desp. to Secy. of State, No. 178, d. 6th June 1901 (Part III, page 265).* 11. *Royal Commission on Indian expenditure.*—In 1895 a Royal Commission was appointed “to enquire into the administration and management of the military and civil expenditure incurred under the authority of the Secretary of State for India in Council, or of the Government of India, and the apportionment of charge between the Governments of the United Kingdom and India for purposes in which both are interested.” The result of the Commission’s report, which was presented in 1900, is that Indian revenues have been relieved of an annual charge of £257,000 per annum; the extent of India’s interest in military operations beyond her external frontiers has been defined on the principle of a geographical distribution of charge; and it has been laid down that in the event of a conflict of opinion arising as to the exact share to be borne by India in any particular case to which this principle applies the matter is to be referred to a joint committee representing both Governments. Disputes regarding the distribution of administrative charges will be submitted to a standing arbitrator of high judicial authority. The Government of India, while accepting this settlement, expressed the opinion that the relief given fell “far short of according to India the just and liberal treatment which was claimed for her,” and requested that when the time came for revising the new arrangements Indian claims might be reconsidered on broader lines.

*Resolution No. 2428-A, d. 13th May 1902.* The Commission’s examination of the system of audit and account led to no important change. A number of minor modifications were discussed between the Secretary of State and the Government of India, and effect was given to those which were finally approved in May 1902. But on the whole the Commission were well satisfied with the existing financial machinery which they found to be “theoretically complete” (paragraph 61 of their report) and “well organized and effectively controlled” (paragraph 341 *ibid*).

12. *Military Works grant.*—It has been the custom since 1880 to make a fixed annual allotment for Military Works expenditure, but experience has shown that it is impossible to adhere to a fixed sum, as unforeseen circumstances constantly arise which compel the Government to make large additions in the form of special grants for specific works, even when the grant has recently been



readjusted and increased to meet new conditions. It was proposed in 1903 to make the fixed limit applicable only to those charges which remain fairly constant, such as establishment, minor original works, repairs and other "ordinary demands." For these a definite sum was to be granted for five years, to be increased in the second and each succeeding year by some small specified amount—a device which is analogous to the provision made for the normal increase of ordinary civil expenditure by the assignment to Local Governments of growing revenues. "Special demands," that is, original works costing Rs. 50,000 and over, were to be dealt with separately on their merits, and undertaken as measures of general military policy according to their urgency and the state of the finances. The Secretary of State agreed except as regards the engagement to make a yearly addition to the sum originally allotted for ordinary demands, the annual amount of which has thus been fixed at Rs. 93½ lakhs. The special demands under Military Works have since been included in the annual Reorganisation grant as explained below.

*Mily. Dept.  
Desp. to Secy. of  
State, No. 208, d.  
5th Nov. 1903.*

*Mily. Dept.  
Desp. to Secy. of  
State, No. 17, d.  
16th Feb. 1905.*

13. *Special Defence Works.*—In 1903 the Government of India, having decided to carry out a scheme for the revision of armament and improvement of coast and frontier defences at a total cost of Rs. 125 lakhs to be spread over several years, proposed that about Rs. 100 lakhs out of the unexpectedly large surplus of 1903-04 should be set apart for the completion of the scheme by being finally charged off as expenditure in the revenue accounts of the year, and held in Government securities till actually required. The Secretary of State took exception to the proposal as conflicting with "the sound principle that all expenditure should be shown in the accounts of the year in which it is incurred," but agreed that a sum not exceeding Rs. 125 lakhs out of the surplus of 1903-04 "should be regarded as appropriated" for the scheme of special defence works, though not charged against revenue till the expenditure was actually incurred.

*Desp. to Secy. of  
State, No. 333, d.  
29th Oct. 1903  
(Part III, page  
286).*

14. *Army Reorganisation and Redistribution.*—Subsequently, in 1904, it became necessary to devise measures for financing the comprehensive scheme of Army Reorganisation and Redistribution put forward by Lord Kitchener. The extra expense involved was impossible to forecast with accuracy, but the Government of India undertook to carry out in five years a programme of special expenditure limited to Rs. 13 crores of which Rs. 10 crores would be non-recurring, the eventual recurring expenditure which the scheme involved being estimated at Rs. 2 crores annually. Allowing for other extra expenditure to which the Government were already committed it was considered necessary to provide in each of the five years a maximum of Rs. 3 crores, an amount which it has since been proposed to raise to Rs. 3¼ crores in view of the inclusion in the reorganization schedule of the special demands on account of Military Works. It was anticipated that under normal conditions and on the basis of taxation then existing about Rs. 2½ crores of this annual expenditure could be met from revenue, and the Government of India were prepared to find the further sums required by borrowing. To prevent the necessity for hurried expenditure at the end of each year it has been decided to allow over-allotment up to a maximum of Rs. 15 lakhs, and also to reallocate lapsed grants up to a maximum of Rs. 50 lakhs in each year. In the current year (1905-06) the total sum provided is Rs. 490 lakhs, all obtained from revenue.

*Mily. Dept.  
(Secret) Desp. to  
Secy. of State, No.  
138, d. 29th Sept.  
1904 (Part III,  
page 289), and  
Desp. from Secy. of  
State, No. 148, d.  
18th Nov. 1904.*

15. *Indian Savings Banks.*—The measures taken to encourage the purchase of Government securities by Savings Bank depositors will, if successful, serve



not only to enlarge the field of investment in rupee paper but also to reduce the Government of India's cash liabilities. The Government have been impressed with the risk involved in the rapid increase of deposits which are not secured by any liquid reserve but devoted to capital expenditure. As a precaution against this risk they asked the Secretary of State in 1903 to agree to the following proposals :—

*Desp. to Secy. of State, No. 230, d. 30th July 1903 (Part III, page 292).*

- (i) The reduction of the rate of interest on deposits held at call (as all deposits now are) from  $3\frac{1}{2}$  to 3 per cent.
- (ii) The grant of interest at  $3\frac{1}{4}$  per cent. on six-months' deposits.
- (iii) The formation of a savings bank reserve by the investment in sterling securities of one-third of the net deposits and of all interest saved by the first proposal.

*Desp. from Secy. of State, No. 77, d. 29th April 1904.*

*Desp. to Secy. of State, No. 222, d. 23rd June 1904 (Part III, page 295).*

*Desp. from Secy. of State, No. 128, d. 2nd Sep. 1904.*

These proposals were negatived by the Secretary of State on much the same grounds as those which led him to disapprove the formation of a famine fund. On resubmission the third was finally negatived, but the first two were accepted and brought into effect in July 1905.

*Commerce Dept. Resolution No. 509, d. 11th March 1905.*

16. *Decentralization of Forest audit.*—Under a system introduced in 1876 the Forest accounts of all provinces except Madras and Bombay were audited in the office of the Comptroller and Auditor General. This system of centralization, which is not applied to any other head of accounts though many of them are of far greater financial importance, was found to involve delay and unnecessary work, and it was decided with effect from 1st April 1905 to distribute the account and audit work connected with Forest revenue and expenditure among the provincial account offices concerned,

*Resolution No. 6271-A., d. 4th October 1904.*

## CHAPTER IV.—CUSTOMS, SHIPPING AND OTHER COMMERCIAL QUESTIONS.

1. *Introductory*.—The formation of the new Department of Commerce and Industry is the most important of the general commercial questions dealt with in Part I. Reference was also made to the assistance given to the tea and indigo industries, and to the Indian Companies (Branch Registers) Act. The following matters connected directly or indirectly with customs administration were also examined : (i) the reorganization of the customs department ; (ii) the establishment of a customs barrier against the Kathiawar Native States ; (iii) the commercial conventions or unfinished negotiations with France, Russia, Persia, Japan and other countries ; and (iv) the general questions of countervailing sugar duties, preferential tariffs, and the growth of trade.

2. *Customs : (a) Relations with Portuguese India*.—To complete the account of India's tariff relations it must be added that the situation as regards Portuguese India remains unchanged. The preventive line which was established against Goa and Daman in 1892 on the abrogation of the Anglo-Portuguese Treaty of 1878 is still maintained, and, as the Government of India explained to the Secretary of State in 1899, the present arrangements have proved less onerous financially than those which they superseded. But, though unwilling to take the initiative or to remit Indian duties when no compensating advantages had been offered, the Government granted in 1899 certain concessions in regard to drawback which had previously been withheld, and in 1902, in response to a memorial submitted through the local Portuguese authorities, they again declared their readiness to consider proposals for the equal treatment of goods passing between their own and Portuguese territory.

*Desp. to Secy. of State, No. 193, d. 8th June 1899.*

*Notification No. 2547-S. R., d. 23rd June 1899.*

*Letter No. 1457-S. R., d. 14th March 1902.*

3. *(b) Exemptions*.—There have been the usual changes in the tariff, mostly in the direction of exemption. The only actual addition is "tinned iron cases when imported containing petroleum." In 1894 it was decided to pass petroleum tins free as packing material. They have however a recognized intrinsic value when empty, which is not included in the valuation of the oil at the time of import. To remove the discrimination in favour of tin-plate imported in this form, a tariff valuation was fixed in 1903 and duty levied at 5 per cent. In the same year it was brought to notice that beer being liable to a specific duty of one anna per imperial gallon might in the case of the better kinds be more lightly taxed than non-alcoholic liquors which pay 5 per cent. *ad valorem*. A proposal to double the duty on beer was unanimously supported by the Local Governments, but it was ultimately decided to defer legislation.

*Letter No. 5424-S. R., d. 4th Sep. 1903.*

Among the exemptions perhaps the most important is the complete exemption of machinery in 1899. The previous rule had been to admit machinery free when intended for use in certain specified industries. It was found that the list of favoured industries was constantly being enlarged and it was practically impossible to draw the line of distinction which the rule contemplated. It was therefore decided to cancel the restriction and admit machinery free under all circumstances. An extension of this was the exemption in 1903 of agricultural implements worked by manual or animal power, a category in which various dairy appliances were subsequently included. Several concessions have also been made in favour of regimental property. In the case of native regiments returning from a tour of service in the colonies, the equipment of the officers' mess can be reimported free of customs duty if its exportation was notified by the

commanding officer at the time the regiment went on service, and a full inventory supplied to the Customs authorities. Military band instruments with certain specified accessories have been specially exempted, but it has been ruled that the concession does not apply to volunteer corps. It has also been decided that when a regiment has lost the whole of its mess plate by fire or other calamity it may import the equivalent free of customs duty. In

*Notifications Nos 552 and 553-S R., d. 26th Jan. 1904.* January 1904 the exemption of military equipment was extended to a long list of specified articles when imported by any unit or officer of His Majesty's regular forces for their own use; and in May 1904 the Govern-

*Letter No. 3079-S R., d. 21st May 1904.* ment sanctioned the grant of a refund of customs duty on such articles when sold in India by any recognized trader to any person who might under the foregoing orders have imported them direct and free of duty. The same articles are also manufactured in India except for certain fittings and attachments which have to be imported, and it was suggested that the latter should also be exempted; but the request was refused as involving an undesirable extension of the previous orders. Other concessions are the exemption of memorials of a public character; of trade catalogues and circulars imported by post; and of specified articles required for the use of various Consulates, the last mentioned privilege being allowed as a matter of courtesy in consideration of the reciprocal treatment accorded to British Consular representatives.

*Commerce Department letter No. 2088-C., d. 29th May 1905.* The Government of India have simplified the somewhat vexatious rules regarding the assessment of duty on articles imported by post by giving postmasters a certain discretion in regard to the valuation of articles of small value. They have also in effect enlarged an existing exemption, and at the same time saved much annoyance to travellers and labour in the Customs

*Resolution No. 399-S R., d. 19th Jan. 1904.* department, by defining on broad lines the articles to be passed free of customs duty as passenger's baggage, a matter in which great diversity of procedure had prevailed. The revised rules as first issued exempted all baggage, provided that it was brought with the passenger or landed within one month of his arrival; that it was reasonable in amount with reference to his status in life; and that it was imported for his personal use. The exemption did not cover articles liable to a special rate of duty, such as arms and ammunition, but it extended to all other articles whatsoever. It was found however that the exemption allowed was wider than the convenience of the public demanded, and that articles such as pianos and motor cars were being imported free as baggage to the detriment of traders, who are required to pay duty. Amended rules were accord-

*Commerce Department Resolution No. 5528, d. 3rd October 1905.* ingly issued in October 1905 under which such articles must pay duty in any case, and any goods brought as cargo and included in the ship's manifest are excluded from the concession of free entry. Some earlier orders issued in May 1903 permit the exemption of reimported articles which were originally imported free as baggage, and the grant of drawback on articles assessed to duty on first importation and subsequently exported as baggage. General orders have also

*Commerce Department letter No. 227, d. 21st February 1905.* been issued regarding articles intended for sale which are sent back to England for repairs and finally again imported into India, the rule being that drawback must be claimed on re-export and the full duty paid on re-import. Cases having arisen in which merchants taking goods to Pondicherry and subsequently bringing them back unsold were called upon to pay duty on re-importation, the Government decided to exempt goods of British Indian production (other than arms, liquors and opium) which are exported to foreign territory and subsequently imported into India by land, provided that they return within six months of exportation and are properly identified.

The Government have allowed drawback in the case of goods landed at Karachi for transmission to Persia and sent on without breaking bulk *via* the Nushki-Seistan route, but have refused on political grounds a similar concession to goods imported into India and forwarded *via* Peshawar to Afghanistan. For cotton goods, manufactured in Indian mills and sent in bond to Kashmir and Jammu or thence to Russian and Chinese Turkestan, they have conceded a right of drawback in respect of excise duty corresponding to the exemption from customs duty enjoyed by imported cotton goods in similar circumstances under the rules of the 25th January 1898.

A concession has been made to the Kashmir Durbar by the grant of refunds on the contents of postal parcels consigned to persons in Jammu or Kashmir territory from abroad; and to the present Amir of Afghanistan by the extension to him of the privilege, which his father enjoyed, of importing munitions of war for State purposes or for his personal use free of duty. Certain Arab chiefs have also been permitted when visiting India to import arms without payment of duty.

*For. Dept. letter  
No. 368-I. B., d.  
25th Jan. 1905.*

*Home Dept.  
letter No. 2371, d.  
11th July 1905.*

4. *Merchandise Marks*: (a) *Improved tests*—In consequence of complaints regarding the methods employed in weighing cotton yarn in the Indian custom houses, the Government in 1899 introduced the "stove test" by which the yarn is first weighed in an absolutely dry condition and a fixed percentage is added to obtain the weight under normal conditions of moisture. Improved apparatus was also obtained for testing the strength of alcoholic liquors—a subject on which complaints were general and on the whole well-founded.

*Resolution No.  
4956 S. R., d. 17th  
Oct. 1899.*

5. (b) *Short-reeling*.—In 1896 the Government of India ruled that the Customs authorities should not take advantage of the opportunities offered by the Cotton Duties Act to enforce the provisions of the Merchandise Marks Act against the produce of the Indian mills, but leave injured purchasers to seek a remedy in the Criminal Courts. In 1902 the Bombay Government represented that the fraudulent short-reeling of yarns was being deliberately and systematically carried on by certain mills, and that honest manufacturers were thereby placed at a disadvantage, while the foregoing orders compelled the officers of Government knowingly to countenance violation of the law. The Government of India thereupon consulted Chambers of Commerce on the question whether Inspectors of Cotton Factories should be authorised to make enquiries and institute prosecutions. The replies of the Chambers showed a practical unanimity as to the desirability of protecting the home market, but the conditions of the foreign yarn trade were such that any interference with trade custom as regards reeling for export was likely to place Indian producers at a disadvantage. As this complication made the formulation of suitable preventive measures unexpectedly difficult, the Government of India appointed a Committee, which included representatives of the Chambers of Commerce, to draw up precise instructions. The Committee however reported that effective action could not be taken without legislation which the Government of India had desired to avoid. At the same time it was represented that the Indian weaver is not injuriously affected by the practice of short-reeling as he knows the exact amount of cloth which should ordinarily be produced from a given quantity of yarn and will reject the yarn of a mill which yields less than the usual amount. In these circumstances it became doubtful

*Letter No. 99-  
S. R., d. 19th Jan.  
1903.*

*Letter No 6553- whether restrictive action was really required, and after reference to Local  
S. R., d. 14th Oct. Governments it was decided to drop the proposals. The matter was again  
1904*

*Commerce De- discussed at great length in 1905, and it was decided not only to reaffirm the  
partment Desp. to previous decision regarding yarn of Indian manufacture, but to extend it by  
Secy of State, No abandoning the present ineffective check on the importation of short-reeled yarn  
35, d. 6th July 1905 from abroad.*

6. (c) *Trade marks.*—On several occasions, both before and during Lord Curzon's Viceroyalty the Government have considered the expediency of registering trade marks in India. In 1903 the question was referred to Chambers of Commerce and Local Governments at the instance of the Secretary of State, but the suggested legislation was generally opposed. The existing law is found to afford adequate protection to the legitimate users of recognized trade marks even though the mark be unregistered. If an Indian Act were passed these unregistered marks would have no status. It would also become necessary either to treat all marks registered in England as registered in India also, or to require them to be registered over again in this country. Either alternative is open to serious practical objection. The fact is that in India the ownership of the trade mark (of which registration supplies valuable evidence) is seldom or never in dispute; and the only question arising in practice (which a Registration Act would not touch) is whether a mark which has been challenged is or is not a colourable imitation of the original. The matter may become practically important with the growth of local industries, but for the present, in deference to the strong commercial opinion against registration, the Government have recommended that no action should be taken. For similar reasons in 1902 they declined to adhere to the Industrial Property Convention of 1883.

*Desp. to Secy. of State, No. 258, d. 21st July 1904 (Part III, page 406).*

*Revenue Department Desp. to Secy. of State, No. 24, d. 15th May 1902.*

In dealing with the importation of goods bearing a counterfeit trade mark some difficulty has arisen from the obscurity of the law [clauses (d) and (e) of section 18 of the Sea Customs Act]. Customs officers were instructed to act upon the assumption that the former clause prohibits the importation of goods bearing a counterfeit mark within the meaning of the Indian Penal Code, and is not neutralized, as appears at first sight, by the clause which follows it. By Act XVI of 1904 the apparent ambiguity of the law in this respect has now been removed. The procedure laid down in regard to detention is that the Collector of Customs should provisionally detain the suspected goods and communicate with the owner of the genuine mark. If the latter agrees to indemnify the Government for any damages which may be given against the department in the subsequent litigation, the goods will not be passed till the question has been decided by a competent Court; otherwise the consignee will be allowed to remove them. The burden of proving the validity of a mark is thus thrown upon the individual traders whose interests are involved.

*Desp. to Secy. of State, No. 199, d. 9th June 1904.*

*Commerce Department letter No. 3170-C., d. 8th July 1905.*

7. (d) *Miscellaneous*—Revised orders have been issued regarding the marking of piece goods, under which it is held sufficient if the marks are such as are not likely to be obliterated in the ordinary course of handling before the goods reach the purchaser.

In 1901 enquiries were instituted regarding the working of the Merchandise Marks Act; and in particular it was suggested that it might suffice to require goods of foreign origin to be marked with the words "made abroad" instead of with the name of the particular country of origin. This suggestion was put forward to meet the objection that the latter method tends to divert trade from

Great Britain by supplying information as to the places in foreign countries where goods can be obtained. But the majority of the Chambers of Commerce were then of opinion that the words "made abroad" would be too indefinite, and the proposal was negatived. The question has however been recently reopened by the conference of Indian and Ceylon Chambers of Commerce and is still under discussion.

*Desp. to Secy. of State, No. 26, d. 12th Feb. 1903.*

8. *Ports.*—The Indian Ports Act, X of 1889, has been amended by Act III of 1901, in connection with plague and other sanitary measures, and by Act V of 1903 to remove certain legal and technical difficulties. The Bombay and Karachi Port Trust Acts have also been amended; and the Madras Harbour Trust Act has been repealed and a Port Trust constituted under Madras Act II of 1905 with larger powers than the former Board. In the same way the growing importance of Rangoon has been recognised by the Rangoon Port Act, 1905, which repealed the Rangoon Port Commissioners' Act, 1879. By Bengal Act No. IV of 1905, amending the Calcutta Port Act, 1890, power has been taken to regulate the means of communication across and along the river Hooghly. By the Chittagong Port Commissioners Amendment Law of 1903 the Port Commissioners have been authorised to levy a river due of not more than 4 annas a ton on all goods passing through the port in sea-going vessels. This measure was urgently required to make up the annual deficit in the revenue of the port and to allow a margin for improvements. A scheme to develop the trade of the Aden port by deepening the harbour and building a public wharf was examined on the spot by a small committee appointed at the suggestion of the Government of India. The financial prospects of the project were found to be uncertain, and as the Admiralty were unable to give any assistance and non-official opinion was strongly opposed to the scheme, the Government determined not to proceed further with the original proposals. More recently the Government have obtained the Secretary of State's sanction to the improvement of the Madras Harbour at an estimated cost of Rs. 60 lakhs, of which it is proposed that Rs. 40 lakhs shall be provided by borrowing and the rest from an Imperial grant. The repayment of the loan is to be spread over sixty years and as the annual charge will, at any rate in the earlier years, exceed the available resources of the Port Trust, it is intended that any deficiency, up to a maximum of one-half in each year, shall be made good from provincial funds, which under the recent settlement have been largely augmented.

*Desp. from Secy. of State, No. 107, d. 2nd Aug 1901.*

*Letter No. 1711-S.R., d. 28th March 1903.*

*Desp. from Secy. of State, No. 52, d. 18th Nov. 1904.*

9. *Pilotage.*—At the request of the Government of India the Bengal Government appointed a Committee, which included a representative of shipping interests, to consider the emoluments and discipline of the Bengal Pilot Service, about which a number of questions had been raised by commercial and other authorities. The enquiry showed that the present scale of fees was not excessive; but some minor changes were made. It was also urged that the strength of the service failed to meet the requirements of the increasing traffic, and the Government of India obtained the Secretary of State's sanction to the increase of the cadre by six appointments. In Karachi, which is not an exceptionally difficult harbour, it was found that the system of compulsory pilotage was being enforced as a tax on transportation, and the Government of India, on the representation of a firm of ship-owners, gave instructions that coasting steamers of not more than 1,600 gross tonnage, in charge of masters who had passed the prescribed examination for pilots, should be allowed to enter in the day time without employing a pilot.

*Letter No. 364-S.R., d. 16th Jan. 1904.*

*Desp. to Secy of State, No. 131, d. 5th May 1904.*

*Letters No. 3299-S.R., d. 29th June 1900, and No. 1195-S.R., d. 28th Feb. 1901.*



10. *Coast-lights*.—The commercial public in India and elsewhere have long been agitating for the lighting of the lower portion of the Red Sea and the Gulf of Aden, but the efforts of diplomacy for many years proved unsuccessful. The question was at last settled in 1903, when the Turkish Government constructed four new lighthouses at Mokha, Abu Ail, Zebayr, and Djebel Teir. The Government of India have themselves improved the Perim lights after ineffectual efforts to convince the Home Government that Indian revenues should not be required to bear the whole cost of lighting a portion of the main highway between the United Kingdom and its eastern possessions. The Viceroy's tour in the Persian Gulf has resulted in proposals for the erection of a lighthouse at the entrance of the Gulf and for the lighting of the Gulf generally; and an expert is to be brought out from England to report upon the scheme. The Government have also decided upon the construction of a lighthouse on Beacon Island off the coast of Burma. The necessity of the work has been admitted since 1883, but it was postponed for want of funds till a representation from the British India Steam Navigation Company again brought the matter to notice. In the case of the Madras Coast lights Act the Government found themselves compelled to run strongly counter to commercial opinion. In 1898 they had authorised the Government of Madras to embark upon an extensive and costly scheme of lighthouse construction and illumination on the understanding that light dues would be levied from the shipping benefitted, as is already done in Burma, and in the cases of the Minicoy Light and of the Great and Little Basses Lights off Ceylon. The work was paid for in the first instance from the funds of the Madras ports supplemented by Imperial and Provincial grants. When it was almost completed, and the proposal to levy light dues took shape, it was strongly represented on every side that the lights had not been really needed and that the coasting shipping could not bear the additional taxation required to pay for them. The Government of India were unable to accept these conclusions, though they fully appreciated the importance of limiting the dues to the lowest reasonable amount. The question, which was very complicated, was examined in consultation with representatives of the Madras Government and of the shipping company principally concerned: the sinking fund charges were spread over sixty years; the rates originally proposed were reduced by nearly half; and in order to secure that the amount raised should neither exceed nor fall below the actual charges, provision was made for periodical revision both in Madras and in Burma. The port dues were also reduced as they became unnecessarily high when port funds were relieved of the charges which had been illegally thrown upon them. Finally the amended Bill passed into law as Act IX of 1904 without opposition.

*Letter No. 6432-  
S R., d. 21st Oct.  
1903.*

*e.g., Desp. to  
Secy. of State, No  
21, d. 17th Jan.  
1901.*

*Desp. to Secy. of  
State, No 29, d. 6th  
Feb. 1902.*

11. *Merchant Shipping : (a) Lascars*.—In 1899 the important question of lascars' accommodation, which had been discussed in 1894, was revived at the instance of the Board of Trade. The English Merchant Shipping Act prescribes for seamen generally (including lascars) a minimum space allowance of 72 cubic feet and 12 superficial feet; the Indian Act, which applies to native seamen, allots only half these amounts. The matter was felt to involve the interests of the British seaman as well as the sanitary welfare of the lascar and had been the subject of numerous questions in the House of Commons. The Government of India, under the instructions of the Secretary of State, again instituted elaborate enquiries, attention being specially directed to the collection of observed facts regarding the healthiness or



otherwise of the lascars' life. The opinions of medical and sanitary experts, so far as they purported to be based on such facts, were somewhat conflicting and indecisive. In fact, as the Government of India observed, practically no evidence was adduced which would imperatively demand a change in the law. The generally healthy conditions of life at sea, the fact of the permanent absence of a portion of the crew on deck duty, the habit of sleeping on deck in hot weather, and the almost uniform practice of building ships with more crew space than the Indian law demands, all operated to counterbalance the theoretical insufficiency of the legal standard. It was also shown that any reduction of lascar crews resulting from the assimilation of the Indian to the English law was much more likely to benefit foreign than British seamen. The Government of India felt that in these circumstances considerable weight should be attached to the strong and unanimous opposition which was offered alike by masters and men and by shipping companies and Chambers of Commerce. They suggested however by way of compromise that for ships trading east of Suez the present Indian standard should be maintained, and that the English standard should be enforced as against all ships trading with British ports which were built after this arrangement was announced. It has since been authoritatively decided on a test case instituted by the Peninsular and Oriental Company that the English law overrides the Indian, but no decision has yet been communicated as to the exceptions, if any, which the Board of Trade propose to allow in enforcing this decision against Indian shipping.

*Desp. to Secy. of State, No. 81, d. 7th March 1901 (Part III, page 479).*

In 1902 it was represented by numerous shipping companies that, with the quick voyages made by modern steamers and their improved accommodation and equipment, the Government might safely relax the rule which prohibited the engagement of lascars to proceed in the winter months to ports on the east coast of America, north of 38 degrees north latitude. This prohibition excluded Baltimore, Philadelphia, New York, Boston and other important ports, and tended to discourage the employment of lascars. With the concurrence of the Board of Trade the Government of India decided to raise the limit experimentally to 43 degrees north latitude in the case of native seamen employed solely between decks in the Engine and Steward's Departments. Arrangements were made at the same time to ensure the proper heating of the forecastles and the provision of warm clothing, and also to provide for regular supervision and report by lascar transfer officers in England; and the forms of lascar agreements were altered in accordance with these changes.

*Resolution No. 4187-S R., d. 1st Aug. 1902.*

In 1905, at the instance of the Board of Trade, the Government of India decided to amend the form of lascar agreement to provide for the transfer of lascar crews from vessels at ports abroad to vessels at British ports.

*Commerce Department Desp. to Secy of State, No. 37 d. 13th July 1905.*

Prolonged enquiries were made in 1903-5 into certain allegations of misconduct in connection with the employment of lascars. The Government of India formed the opinion that the aspersions cast upon the officials of the various shipping offices were wholly unjustified, and they were also satisfied that it was not usual for the licensed brokers or "Ghat Serangs" to extort a commission from the lascars for whom they obtain employment. They admitted that it was customary for lascars to pay a certain proportion of their wages to the serang of their ship, but the custom was discountenanced by the shipping officials and was probably on the decline. The practice of recruiting lascars through serangs is similar to that obtaining in almost every employment in India for which men have

*Desp. to Secy. of State, No. 165, d. 19th May 1904, and Commerce Department Desp. to Secy of State, No. 43, d. 3rd Aug. 1905.*

to be recruited in gangs; and though liable to abuse of the kind above-mentioned the system is popular with the men and advantageous to employers.

Proposals have been put forward for the amendment of Section XXIII of Act I of 1859 which requires that the crews of foreign going ships who have signed on at an Indian port must be periodically discharged as soon after the 30th June and the 31st December as the ship returns to port. The result is that twice every year the entire crews of all the ships are discharged almost simultaneously, an arrangement which offers peculiar opportunities for combination among the men and is in every way productive of inconvenience. It is now intended to permit agreements to be entered into for six months from any date. The proposal to legislate at present awaits the Secretary of State's sanction.

*Resolution No.  
1735-M-S R., d.  
29th March 1901.*

12. (b) *Eurasian and Arab seamen.*—Complaint was made in 1900 that Eurasians were being practically debarred from apprenticeship to sea service except as common lascars by the practice of treating them as "native seamen" whom shipping masters must undertake to repatriate. The Government of India informed Local Governments that the term "native seamen" did not apply to statutory natives, and that no restrictions should be imposed which would prevent Eurasians from being shipped on the same terms as Europeans. On a further examination of the question in 1904 the Government of India recommended the retention of the existing practice of permitting Eurasians to ship as Europeans or natives at their option. The Secretary of State agreed that this practice might continue, and that, as long as cases of destitute Eurasian seamen shipped under British articles were not numerous, it was unnecessary to attempt to enforce claims for the expenses of repatriating them against masters and owners. In the case of Arab seamen born at Aden who had hitherto signed on European articles, it was decided that they should be required to engage as native seamen with an undertaking for their repatriation.

*Desp. to Secy of  
State, No. 433 d.  
8th Dec. 1904.*

13. (c) *Deserters.*—A question having arisen as to the power of the Indian authorities to give assistance in the recovery of deserters from foreign ships of war, orders were issued in 1900 explaining to Local Governments that the law conferred no power of arrest in such cases, and the assistance given must be confined to enquiry as to the whereabouts of the missing men and report of the result to the captains of the vessels concerned.

*Desp. from Secy  
of State, No. 17, d.  
15th Feb. 1900.*

By His Majesty's Order in Council of 9th October 1903 it was declared, that under section 238 (1) of the Merchant Shipping Act, 1894, seamen, not being slaves (and not being British subjects), who within His Majesty's dominions desert from Japanese merchant ships, should be liable to be apprehended and restored.

*Letter No. 4896.  
S. R., d. 12th Sep.  
1902.*

14. (d) *Explosives.*—In September 1902 the Government directed that Port Officers, when deciding whether to detain a vessel as unsafe under the Indian Merchant Shipping Act, should follow the instructions regarding the carriage of dangerous goods and explosives which have been issued by the Board of Trade for the guidance of officers exercising the power of detention in England.

15. (e) *Registration.*—It was observed in 1898 that the effect of the new English Merchant Shipping Act of 1894 was to make registration under the English Statute compulsory, and to nullify the Indian enactments which had enabled Indian vessels to obtain the status of British ships by registration in this country under a simpler system better suited to vessels built after the native fashion. A Bill was accordingly introduced in 1899 to remedy this

inconvenience, but various objections have been raised, and it is not likely that further action can be taken for some time to come.

In June 1903 Aden was approved as a port of registry for ships under the English Merchant Shipping Act, the Resident at Aden being appointed to be Registrar. *Notification No. 3586-S. R., d. 15th June 1903.*

16 *Native Passenger Ships*.—In Chapter XVI of the summary of Lord Lansdowne's administration it was mentioned that certain recommendations of the Native Passenger Ships Commission of 1890 could not be put into effect without legislation. It was ultimately found that some of the proposed amendments were beyond the competence of the Indian legislature. This led to a reconsideration of the proposals, and it was decided that, as the legislative powers which it would be necessary to obtain from Parliament were not urgently required for the removal of actual inconvenience or grave defect, the question of the further amendment and consolidation of the law might be dropped till practical difficulty arose. *Desp. to Secy. of State, No. 177, d. 1st June 1899.*

In 1899 a case of overcrowding was reported which the law failed to meet, the ship in question having started her voyage from an East African port and landed the excess passengers in a Native State before finishing her voyage at a British Indian port. It was arranged to prevent this practice in future by executive action in co-operation with the Native States concerned and Her Majesty's representatives in British East Africa. *Desp. to Secy. of State, No. 429, d. 21st Dec. 1899.*

As regards explosives it has been laid down that the issue or refusal of certificates for native passenger ships should be determined by the Board of Trade rules referred to above. Rules were also issued in 1903 for regulating the carriage of petroleum in such ships. These rules were amended in 1904 and supplemented by further executive instructions in 1905. *Notification No. 5100-S. R., d. 20th Aug. 1903.*  
*Notification No. 7641-S. R., d. 5th Dec. 1904.*

17. *Inland Steam Vessels Act*.—The Inland Steam Vessels Act, VI of 1884, was amended by Act VII of 1899 with the object of enabling the Government to deal with the prevention of collision on inland waters by rules prescribing the use of sound signals, the exhibition of lights by country boats as well as by steamers, and the methods to be adopted in steering and towing. Rules under the new Act were sanctioned for Bengal (except the Hughli) in August 1900, and for Burma in July 1901; and steering rules for the Hughli (the navigation of which is in other respects governed by an Order in Council) were sanctioned in December 1901. *Commerce Department letter No. 3127-C, d. 7th July 1905.*

18. *Indian Steam Ships Act*.—On the representation of a steam ship company whose vessels plied between Suez and Aden (which though a British Indian port possesses no facilities for the carrying out of a survey) the Indian Steam Ships Act, VII of 1884, was amended by Act III of 1902 in order to enable British ships to be surveyed at a foreign port in this and similar exceptional cases. The Act prescribes that the survey shall be "official", and it has accordingly been ruled that the acceptance of certificates granted at foreign ports by a Lloyd's Surveyor or a surveyor to any other Register Society must be discontinued. *Commerce Department letter No. 2630-C, d. 9th June 1905, and Commerce Department Desp. to Secy. of State, No. 55, d. 14th Sep. 1905.*

In January 1900, the Government of India prescribed a revised form of certificate of survey for sea-going steam ships. The new form, which was subsequently slightly altered in April 1900, and again in July 1903, follows closely that used by the Board of Trade. In consequence of its adoption it became *Resolution No. 366-S. R., d. 24th Jan. 1900.*

Resolution No.  
2481-S R., d. 8th  
May 1900.

necessary to alter the form of surveyor's declaration, and in May 1900 the Government prescribed a new form also based on that of the Board of Trade.

19. *Deck and Load Lines Act*.—The examination of the rules under the Deck and Load Lines Act, XVII of 1891, which was referred to in paragraph 167 of the summary of Lord Elgin's administration, resulted in the formulation of two distinct sets of rules. The first, which applies only to steam vessels and to sailing vessels other than those engaged solely in the Indian coasting trade, is based on the rules of the Board of Trade and has been duly recognized by that body. The second set of rules applies only to coasting sailing vessels, which are thus removed from the Board of Trade's jurisdiction, and permits them to load up to the Indian Summer Load Line mark which the Board of Trade had refused to recognize in their case.

Commerce De-  
partment letter No.  
4515-M. S., d. 28th  
Aug. 1905.

In 1905 it was brought to notice that foreign ships had in some cases been permitted to leave British Indian ports loaded to a deeper draught than would have been admissible had they been British vessels. The Government were of opinion that it was part of the duty of the port authorities to ensure that no vessel, whether British or foreign, should be permitted to leave a British Indian port in an unsafe condition, and they considered that the standard of safety fixed in regard to British ships, and the means prescribed by the Board of Trade for ascertaining whether a vessel complies with that standard, should be applied to foreign vessels also. Instructions were accordingly issued to give effect to this decision.

Commerce De-  
partment letter No.  
1816-C., d. 20th  
May 1905.

20. *Contraband of War*.—During the Russo-Japanese war some correspondence took place between the Government of India and the Secretary of State regarding Russia's treatment of raw cotton and rice as contraband of war—a view which made it impossible to compel seamen to proceed with ships carrying such cargo to Japan. It was believed that the instructions issued to Russian officers were to the effect that these articles should not be treated as contraband unless intended to be used for military purposes; but the question had not been definitely settled when the war ended.

21. *Conference of Chambers of Commerce*.—A conference of delegates of Indian and Ceylon Chambers of Commerce met at Calcutta in January 1905. The proceedings were opened by Sir Edward Law, then Finance Member. The Resolutions passed by the Conference have since been considered by the Government of India in the various departments concerned.

Resolution No.  
4317-S. R., d. 25th  
Aug. 1900 (Part  
III, page 413).

22. *Native Provident Societies*.—A question unconnected with customs and shipping remains to be noticed, namely that of legislating for the control of native provident societies. In 1893-94 and later years large numbers of friendly societies sprang into existence, first in Bengal and afterwards in Bombay. The majority were founded for life insurance purposes but sometimes other benefits were promised. In most cases these societies were established on an utterly unsound and in many instances on a fraudulent basis, and they rapidly collapsed, especially where, as in Bengal, they were exposed by official action. It was at one time proposed to introduce a Bill on the lines of the English Friendly Societies Act to provide for their management and control, and a rough draft of such a Bill was circulated for the opinion of Local Governments. But further enquiry showed that the question could for the time be most effectually dealt with by executive action, and it was decided to postpone legislation till the tendencies of the movement were more clearly developed. In the last few years it has died down; practically no new societies are now created, and most of the earlier ones have ceased to exist.

## CHAPTER V.—OPIUM.

1. *Production and Export: (a) Behar and Benares Agencies.*—The Royal Commission of 1893 having advised a more complete development of the “*assamiwar*” system of dealing direct with the poppy cultivators in the Benares Opium Agency, the Bengal Government was asked to report on certain defects which the enquiries suggested by this recommendation subsequently brought to light. These defects were :—

- (1) that the cultivators did not attend fully for settlements ;
- (2) that recoveries of outstanding balances were made from *lambardars* (middlemen) and other producers on account of the default of non-producing cultivators ; and
- (3) that the amount of *khurchan* (scrapings from opium pots) exacted from the cultivators as the remuneration of the *lambardars* was excessive.

With regard to (1) the Government of Bengal issued instructions calculated to encourage attendance which the Government of India accepted as sufficient. In regard to (2) the Government of India directed that the *lambardars* should, as a rule, be held responsible for the recovery of outstanding balances only in case of dishonesty or negligence on their part, while no cultivator should be made to suffer deduction or loss on account of the non-production or insufficient production of his neighbours, unless he had voluntarily accepted responsibility. As regards (3) it was decided that no reduction was possible in the total amount of remuneration allowed to *lambardars*, but that the system of levying this remuneration in the shape of *khurchan* was open to grave abuse and caused serious discontent among the cultivators. Accordingly, on the recommendation of the Government of Bengal and after reference to the Secretary of State, the *lambardar's khurchan* was replaced by a consolidated commission of 2½ per cent, on the value of the opium received from the cultivators, with effect from April 1904. The change is estimated to cost the Government Rs. 3,12,000 per annum.

*Letter No. 2321-  
Ex., d. 22nd May  
1899.*

*Desp. to Secy. of  
State, No. 374, d.  
3rd Sep. 1903.*

The “intermediate” system of dealing with poppy cultivators (described in paragraph 96 of the summary of Lord Elgin's administration) was extended, with effect from 1st September 1901, throughout the whole of the Behar Opium Agency, with the exception of the Hazaribagh Sub-Agency where the *assamiwar* system had been definitely introduced.

*Desp. to Secy. of  
State, No. 78, d.  
28th Feb. 1901.*

In August 1901 the Government of India proposed to transfer the control of opium affairs in the Benares Agency, so far as cultivation, production and manufacture were concerned, to the Government of the United Provinces, the control of the Behar Agency as well as the arrangements for the sale of opium of both Agencies remaining as before under the Bengal Government. The original intention was to amalgamate the excise and opium administration in the United Provinces, and strengthen the former by utilising the services of a body of officers whose other duties bring them into constant and close relation with the people. But while contemplating this further reform the Government of India were prepared to recommend the divided control of the two Agencies as justified in the interests of opium administration alone. The Secretary of State rejected the whole scheme on the grounds that, so far as opium was concerned, the existing arrangements had not been shown to be unsatisfactory in practice, while the combination of excise and opium work was open to

*Desp. to Secy. of  
State, No. 269, d.  
22nd Aug. 1901  
(Part III, page  
419).*



objection on grounds of principle as likely to expose the officers exercising the dual functions to suspicion and unpopularity among the people, and to give a pretext for "the accusation that they utilized the authority derived from their close association" (as excise officers) "with the local police and magisterial authorities to put pressure on the cultivators to grow opium."

*Desp. to Secy. of  
State, No. 221, d.  
23rd July 1903.*

In 1903 the Government of India addressed the Secretary of State regarding the practice of reserving the appointments of Factory Superintendent at Patna and Ghazipur for officers of the Indian Medical Service. Experience had shown that on the one hand suitable medical officers were not always available, while on the other the existing practice left no inducement for the officers of the Opium Department, who were otherwise fully qualified, to acquire the requisite chemical and mechanical knowledge. The duties attached to these appointments are of a very varied character, and it is essential that frequent changes in *personnel* should be avoided. The Government therefore recommended, and the Secretary of State agreed, that in future the appointments should ordinarily be held by officers of the Opium Department, and that officers of the Indian Medical Service should only be appointed when no properly-qualified Opium officers were available. Subsequently suitable tests were prescribed for officers of the Opium Department desirous of qualifying for these appointments.

*Letter No. 2294-  
Exc. d. 26th April  
1905.*

In 1904 numerous officers of the department memorialized the Government on the subject of their pay and prospects which were regulated by a scheme of reorganization introduced in 1897. The Government were satisfied that the department was inadequately paid and promotion unduly retarded, and obtained the Secretary of State's sanction to a scheme costing Rs. 29,270 a year by which the conditions of probationary service were improved; acting allowance was conceded to Assistants officiating as Sub-Deputy Opium Agents; promotion to the Rs. 600 grade was accelerated; and the system of personal salaries was extended so as to allow of promotion by length of service up to the Rs. 800 grade.

*Desp. to Secy of  
State, No. 257, d.  
21st July 1904.*

The Bengal Opium Commission of 1883 and the Royal Opium Commission of 1893 recommended the revision and improvement of the rates of pay of the *kothi* and office establishments in the Behar and Benares Opium Agencies. In March 1901 the Government of India submitted proposals to this end involving a total extra expenditure of Rs 1,25,766 per annum, against which was set off a saving of Rs. 29,589 a year due to the withdrawal of the commission by which these establishments had previously been remunerated. The proposals were sanctioned.

*Desp. to Secy. of  
State, No. 109, d.  
28th March 1901.*

In paragraphs 101, 102 and 105 of the summary of Lord Elgin's administration it was explained that there had been much difficulty in working up to the accepted standard of opium production, *i e.*, 54,000 chests for export, besides the amount required for consumption in British India. As further experience showed that this standard could not be attained without an undesirable increase of cultivation, it was decided in 1901 to reduce the standard from 54,000 to 48,000 chests. Recently, however, the outturn has proved unexpectedly high and it has been decided with effect from 1906 to increase the amount to be offered for sale to 52,800 chests. It has at the same time been laid down that the increased sale of opium is not to be regarded as justifying any extension of the standard area

*Resolution No.  
884-Exc., d. 15th  
Feb. 1901.*

*Letter No. 3707-  
A., d. 28th June  
1905.*

of cultivation. It may be added here that in 1899 the Government discontinued the purchase of Malwa opium for export, this having been a temporary measure adopted in 1894 to supplement the exceptionally low production in the Behar and Benares Agencies. *Letter No. 2893-A., d. 27th June 1899.*

2. (b) *Malwa opium*.—In July 1896 the pass duty levied on Malwa opium was reduced from Rs. 650 to Rs. 600 per chest in consequence of a decline in exports. In October 1897 the duty was again reduced to Rs. 500 owing to a further falling off in exports, principally due to the state of the rupee and dollar exchange, but partly to scanty crops. Prices immediately fell, and reached their lowest point in Bombay in July 1898. From that time they began to rise, and were well maintained from September 1899 to 1904. The Hong Kong prices were also high, and the exports to China increased from 17,432 chests in 1897-98 to 25,718 chests in 1903-04. As it is the policy of the Government to fix the rates of pass duty at the maximum amount which the trade can legitimately bear, the Government decided, with the sanction of the Secretary of State, to restore the duty to Rs 600 per chest with effect from May 1904.

*Telegram to Secy. of State, No 2591-A., d. 23rd April 1904.*

3. *Opium smoking*.—Among their other recommendations the Royal Commission of 1893 advised (1) that the sale of preparations of opium used for smoking should be prohibited in all provinces, the manufacture and possession of such preparations being allowed only in restricted quantities by private individuals for their own use, and (2) that the desirability of taking legislative measures to prohibit the use of premises as smoking saloons either by the public generally or by so-called clubs should be considered. Steps were taken during Lord Elgin's administration to give effect to the first of these recommendations, and it was then decided, with the Secretary of State's approval, to await their result before taking action in regard to (2). In November 1899 the Government of India informed the Secretary of State that the repressive policy adopted in regard to opium smoking had resulted in some diminution of the practice, which might be expected to become more marked in the future, and that experience so far did not point to the expediency of special legislation for the suppression of private opium saloons. At the same time they explained the measures by which they hoped further to discourage resort to these places. The Secretary of State concurred, observing that the present law gives considerable powers to the police and to the excise preventive staff, and it rests with supervising officers to see that these powers are properly exercised.

*Desp to Secy. of State, No. 390, d. 2nd Nov. 1899.*

One of the measures above referred to was the limitation of the aggregate amount which a party of smokers might possess to some quantity less than the sum of the amounts which the ordinary rules permit them to possess severally. In 1901 this measure was authorised in Bengal, the limit for a party being placed at 5 tolas, and its extension to the Central Provinces and Berar and to Burma has recently been proposed. The results of the experiment are now being watched.

4. *Provincial administration : (a) Lower Burma*.—The opium regulations in Burma differ from those in force in other parts of India in two important respects :—

- (1) In Upper Burma a Burman is not allowed to obtain opium (except for medicinal purposes), and in Lower Burma he is only permitted



to do so if he was registered as a consumer in 1893, being then not less than 25 years of age.

- (2) The maximum quantity of opium which a licensed vendor is permitted to sell during the year is fixed for each shop, being calculated according to the estimated number of consumers

This system of prohibition had been enforced since its establishment in 1894 by very heavy opium taxation amounting to double the heaviest scale in other Provinces, and by a rigid limitation of the number of shops, no more than 24 being allowed for the whole of Lower Burma, that is, one for every 3,500 square miles. The amount which the registered consumer may purchase at one time is also limited to three tolas, or about a fortnight's supply. Careful enquiries made in 1898 produced overwhelming evidence that the attempt to restrict consumption was rapidly and completely breaking down. The registered consumers were too far off the shops to obtain their supplies in a regular manner; there were also unregistered consumers, probably ten times as numerous, whom the prohibitive policy was converting into an outlaw class; opium-smuggling from India, China and Upper Burma was rife; and opium could be obtained in almost every village even when there was no shop in the district. The Government of India, while impressed with the grave difficulties which these facts foreshadowed, were in favour of maintaining the policy of restriction and of taking every possible measure to make it effective without regard to financial considerations. They therefore proposed the following remedial measures:—

*Desp. to Secy. of State, No 306, d. 31st Aug. 1899 (Part III, page 424).*

- (1) The abandonment of the system of selling the right of vend by auction, which had been found, in the peculiar circumstances of the province, to tempt the licensees to bid unduly high prices and make up for them by illicit dealings.
- (2) The substitution of a system of fixed license fees so regulated as to allow the licensees a liberal profit on honest dealings and make it worth their while to co-operate with Government in repressing illicit transactions.
- (3) A further attainment of this object by requiring the licensees :—
  - (a) to keep their shops in Government buildings or in isolated premises;
  - (b) to have their stock removed from their own custody at night and stored under double locks, one key being kept by a Government official; and
  - (c) to keep their whole stock on their premises during the day-time and to refrain from employing itinerant hawkers to push their business.
- (4) The increase within a moderate limit of the number of sanctioned shops.
- (5) The abolition of the four existing Government sale centres.
- (6) The admission to registration of Burman consumers who should have been registered in 1893, but for some good cause failed to apply.
- (7) Improved preventive arrangements.

This policy was approved by the Secretary of State, with the exception that the increase in the number of shops was to be first tried experimentally in a

limited area. As this restriction threatened to make the whole scheme ineffective, the Secretary of State was again approached and agreed to the number of shops being increased to 60, and later to 91. In a subsequent despatch the Secretary of State also confirmed the supplementary action taken to bring the scheme into effect, the most important of the further measures being : *Desp. from Secy. of State, No 116, d. 18th July 1902.*

(1) the raising of the issue price of Government opium ; (2) the regulation of the profit of the licensed retailer under the system of fixed license fees by requiring him to sell at fixed rates ; and (3) the creation of a large excise establishment for supervising the licensed shops, and for preventing smuggling and illicit consumption.

The increase in the preventive establishments, which was proposed and sanctioned as a purely tentative measure, involved a total annual expenditure of Rs 3,88,236, or Rs. 3,40,200 in excess of the cost of the existing staff, to which must be added a further increase of Rs. 60,552 a year on account of the subsequent increase in the number of shops from 60 to 91. Not only was each shop to be supervised by a resident Excise Officer on a salary ranging from Rs. 150 to Rs. 250 a month, but each district was also to have an itinerant Inspector on similar pay, and a Superintendent on Rs. 300 to Rs. 800 a month. The duties, strength and cost of this establishment will be carefully reconsidered hereafter in the light of experience. But as the Government of India observed in recommending these proposals : "it is beyond question that the only chance of bringing to a successful issue the extremely difficult and doubtful experiment we have undertaken lies in the employment of an establishment which is not only numerically sufficient, but is also paid at so liberal a rate as to give the members no excuse for yielding to temptation."

These measures were introduced with effect from the 1st April 1902. The first year's working showed that they had to a certain extent substituted licit for illicit consumption. They had not, however, succeeded in putting an end to smuggling, and they had done little to check the consumption of opium by persons who were not registered as consumers. On the whole, the Government of India did not regard the results achieved as satisfactory or as pointing to ultimate success, but they considered that the experiment should be continued until it had received a fair trial. *Desp. to Secy. of State, No. 50, d. 11th Feb. 1904.*

The report on the second year's working was received in November 1904. The results of this year were decidedly more hopeful and were held to justify the continuance of the experiment. In order to ensure its eventual success the following further measures of reform were advocated by the local authorities :— *Desp. to Secy. of State, No. 163, d. 18th May 1905.*

- (1) The prevention of the sale of opium to any purchaser in excess of his probable consumption or means of purchase.
- (2) A further increase in the number of shops so as to enable consumers to obtain a licit supply of opium within a reasonable distance of their homes, the sales at small shops for which no suitable licensees could be found being conducted through the agency of salesmen appointed by the Government.
- (3) A further increase in the preventive establishments so as to provide more officers for the detection of hawking.
- (4) The maintenance of these establishments on a permanent instead of on a temporary footing.
- (5) The appointment of a Controlling Officer to supervise the Excise preventive establishments throughout Lower and Upper Burma.

The Government of India approved the first three and the last of these suggestions, but detailed proposals are still awaited regarding the second and third. As regards the last they provisionally sanctioned the deputation for one year of a District Superintendent of Police as Controlling Officer, but asked the Local Government to consider the question of appointing a provincial Excise Commissioner in accordance with the practice obtaining in all the other larger Provinces in India. The reply of the Local Government, accepting this suggestion and also proposing the appointment of an officer of the rank of District Superintendent of Police as Chief Superintendent of Excise, is still under consideration.

5. (b) *Upper Burma*.—After dealing with Lower Burma, the Government proceeded to take up the case of Upper Burma, where, as already stated, the consumption of opium by Burmans otherwise than for medicinal purposes is prohibited altogether in pursuance of the practice of the former native régime. The absolute prevention of smuggling in this province would involve the guarding of the long frontier line between British territory and China and the Shan States. It is admitted that this frontier is too long and too difficult of access to be effectively watched, and the introduction of opium by land has accordingly been legalized on payment of duty, the efforts of the administration being directed to the problem of dealing with it after it enters the country. In 1903 there were 36 shops for the sale of licit opium in Upper Burma and a preventive staff of one Superintendent and four Sergeants, costing Rs. 367 per mensem. The Local Government proposed to adopt generally the system sanctioned for Lower Burma as regards the abolition of sale by auction and similar matters, and to raise the number of shops to 38 (and ultimately to 50), to re-allocate them, and to place them under adequate supervision with a preventive staff on the Lower Burma scale costing Rs. 24,498 per mensem. The Government of India felt that they were bound to accept these proposals in principle; that if a serious attempt was to be made to prevent smuggling, the licit demand must be supplied and there must be a strong preventive staff; and that however much the Lower Burma scheme might be modified hereafter, it was difficult to see how, except after a prolonged trial, it could be appreciably modified in its two main principles, the increase of the number of shops and the creation of a highly-paid preventive establishment. These measures were sanctioned by the Secretary of State provisionally and tentatively, and introduced with effect from the 1st April 1904. A report on their working is now awaited from the Local Government. Meanwhile, it was reported in September 1904 that the number of shops sanctioned for the province was too small to place licit opium within easy reach of the authorized non-Burman consumers in many localities, while the number of such consumers in any one locality was not large enough to justify the opening of an additional shop. To remove this incentive to illicit purchase it was suggested that such consumers should be allowed, under cover of special passes, to purchase and possess opium for their personal consumption in quantities exceeding the ordinary limit of 3 tolas. This proposal was sanctioned by the Government of India, with the caution that the greatest care must be exercised in granting the special licenses and in fixing the amount of opium purchasable.

A scheme has been under discussion for some time for the removal of the existing prohibition against the export of Yunnan opium to China *via* Burma, and it was suggested that the Chinese Government should be approached. But the Government of India, in addressing the Secretary of State on the subject, were strongly opposed to putting any sort of pressure upon the Chinese

*Desp. to Secy. of State, No. 126, d. 21st May 1903 (Part III, page 431).*

*Letter No. 7860-Exc, d. 15th Dec. 1904.*

*Desp. to Secy. of State, No. 8, d. 5th Jan. 1905.*

authorities in order to obtain their concurrence, and considered that the advantages which the scheme offered to trade between Burma and Yunnan had been exaggerated. It has recently been decided not to proceed with the proposals.

6. (c) *Madras*.—The opium required for the Madras Presidency was formerly imported by licensed merchants under pass from Indore. This practice led to abuse, and at the request of the Madras Government the Government of India, in May 1900, prohibited the private import of Malwa opium and sanctioned the purchase of Government opium by the Madras Board of Revenue from the Bombay store-house. The drug is stored on arrival in the Madras Presidency in Government depôts, and thence issued to wholesale vendors and shop-keepers as required. *Letter No. 2677-  
Ea, d. 31st May  
1900.*

7. (d) *Bombay*.—In April 1900 the Bombay Government reported upon the conditions of the opium administration in that Presidency. During the previous three years there had been a steady decrease in the consumption of licit opium. It appeared to be highly probable that the habit of eating or smoking opium was on the wane, but the chief reason for the fall in licit consumption was considered to be smuggling. The Government of Bombay accordingly recommended that the special preventive establishments employed at the expense of the opium farmers should be formed into a single organised force under the general supervision of the Commissioner of Opium, but having as its immediate head a Superintendent on Rs. 350—450 a month with a subordinate establishment of Inspectors, informers, detectives, *sowars*, etc., numbering 204 men. The duties of the force were to be both of a detective and a preventive character. The additional cost involved was to be met by increasing the contribution of the farmers to one lakh of rupees per annum. The Government of India supported the scheme, and it was duly sanctioned by the Secretary of State and brought into effect in the first instance for a period of five years only. Its further extension for one year with effect from the 1st April 1905 has recently been sanctioned. A part of the establishment employed has in the meantime been tentatively amalgamated with the re-organised excise preventive establishments which have been entertained in three districts of the province in connection with certain reforms in the arrangements relating to country spirits. *Desp to Secy. of  
State, No. 191, d.  
21st June 1900.*

The foregoing arrangements are based on the assumption that the "selection farming" system of opium vend which is peculiar to the Bombay Presidency will remain in force. Under this system the opium farmer pays nothing for the right of vend, but is required to contribute to the cost of preventive establishments. It has however already been modified by the experimental adoption of a separate shop system, with the levy of fees for the right of vend, in ten districts, and the Government of Bombay is considering whether the latter method should not be more widely extended.

8. (e) *Punjab*.—In January 1900 the Government of India pointed out to the Punjab Government that opium was subjected to inadequate taxation in that province, and two alternative schemes of reform were suggested:— *Letter No. 245-  
Ea, d. 23rd Jun.  
1900.*

(a) That the province should look to locally-produced opium as its main source of supply, and excise such opium at adequate rates in lieu of the small acreage taxation then levied.

(b) That it should give up the local supply as an adequate source, and gradually "tax out" the local supply and rely on imports from outside, mainly from Malwa, taxing these at adequate rates.

The Punjab Government submitted proposals based on scheme (a) in August 1902. After further correspondence, a scheme was finally approved to provide for:—

*Letters No. 6754-  
Ex., d. 19th Dec.  
1902, and No. 3382-  
Ex., d. 27th May  
1904.*

- (1) concentration of poppy cultivation;
- (2) the retention of the present acreage tax in areas in which the cultivation is carried on mainly for the production of poppy-heads;
- (3) the substitution of a quantitative excise duty in the opium-producing tracts;
- (4) the storage of the opium locally produced under Government control;
- (5) the concurrent enhancement of the duties on the other descriptions of opium consumed in the Punjab.

The notifications and rules required to give effect to the new arrangements are now being settled by the Punjab Government.

9. (f) *United Provinces*.—It had been the practice in the United Provinces for opium to be sold not only by licensed non official vendors to whom the right of sale had been sold by auction, but also at a fixed price by district treasurers and sub-treasurers, who competed at an advantage with the non-official vendors in having no vend fees to pay and in obtaining their opium from Government at Re. 1 less per seer than the fixed issue price for non-officials. This arrangement was intended as a check on illicit transactions, but its chief effect was to keep the drug below its natural price. At the instance of the Government of India the Local Government, in April 1900, withdrew the special rebate of Re. 1 per seer throughout the provinces, and in October 1900 abolished the system of non-official vend altogether in twelve districts where poppy is not grown, and experimentally in seven other districts where poppy is grown.

*Letter No. 5539-  
Ex., d. 6th Dec.  
1899.*

10. (g) *Central Provinces and Berar*.—In 1903 a committee was appointed by the Chief Commissioner of the Central Provinces to enquire into the systems of excise administration in force in the Central Provinces and Berar. The proposals of the committee in regard to the opium arrangements of the two provinces were received, with the Chief Commissioner's remarks thereon, in April 1905. On an examination of the recommendations made by the committee it has been decided to introduce the following main reforms:—

*Letter No. 8021-  
Ex., d. 9th Sep.  
1905.*

- (1) The importation of Malwa opium into Berar is to be prohibited and the province is to be supplied with Bengal opium from the Ghazipur Factory as is already done in the Central Provinces proper.
- (2) The issue price of opium in the Central Provinces is to be raised from Rs. 22 to Rs. 23½ per seer and the same rate will be adopted in Berar. The opium will be issued to licensed vendors from excise warehouses to be established for the combined storage of opium, liquor and hemp drugs.
- (3) The varying rates at which opium is at present supplied to the Feudatory States of the province will be levelled up, and these States (with the exception of the Sambalpur Feudatories who have been transferred to the control of the Government of Bengal) will in future obtain their opium at a uniform rate of Rs. 18½ a seer.
- (4) The limits of private possession of opium and its preparations will be made uniform in the two provinces and will correspond

with those in force in the other provinces generally. It has also been suggested that the sale of preparations of opium by the ordinary licensed vendors should be discontinued.

- (5) The number of shops for the sale of opium, which is at present excessive, is to be reduced.

The main defect to which the committee called attention was, however, the prevalence of smuggling. The bulk of the smuggled opium came from Central India where (as explained below) an officer had already been deputed to enquire into the excise arrangements of the Native States. This question therefore could not be fully dealt with until his report was received and considered, but in the meantime the internal preventive arrangements of the Central Provinces are being largely strengthened.

11. (h) *Native States* —In 1896 the Government of India, with the sanction of the Secretary of State, organised a temporary detective agency to collect information regarding the smuggling of opium from the Native States in Rajputana and Central India into British territory. This special agency in due course completed its task of obtaining information, and as it was not organised or intended for employment as a preventive establishment, it was abolished from the 1st April 1901. The action taken by the Government of India on its reports (the earlier steps of which are indicated in a despatch of March 1899) finally led to definite and substantial improvement in the control of the opium traffic with British provinces. Revised rules for regulating the cultivation, import, export, transport and vend of opium throughout Ajmer-Merwara were enacted with effect from 1st April 1901, these rules being again revised in 1904. In Rajputana practically all the States have adopted the system of inter-statal passes. Of the opium-producing States, four have adopted rules for regulating the cultivation of the poppy and the production of opium, six have introduced a system of registration of poppy lands and of opium produced therefrom, one is considering the question of restricting the production of opium to a limited number of places, another requires cultivators to sell their produce to licensed wholesale dealers only, while three are at present unwilling, for various reasons, to place restrictions on cultivation and production. The Jaipur Darbar have raised their import duty on manufactured (cake) opium from Rs. 50 to Rs. 150 per maund, and on crude opium from Rs. 25 to Rs. 75 per maund. Though no such duty has hitherto been levied in Alwar (the monopoly of sale in that State being merely farmed out to a contractor) the Darbar are considering the question of levying a duty in future and of organising a Customs Department to control the opium revenue and excise and customs arrangements generally. New opium scales have been established at Baran in the Kotah State. In Central India, with the exception of Gwalior and Jhabua, where the matter is still under consideration, the opium-producing States have introduced a system of export and import passes; the States (other than those in the Bundelkhand Agency) which either produce no opium or grow it merely in sufficient quantities for local consumption, have for the most part taken steps to prohibit the import of the drug except on a pass issued by the Darbar concerned, and to supplement this action by raising the import duty. In the Bundelkhand Agency, where the number of small States and interlacing jurisdictions renders the matter one of some difficulty, the subject is still engaging the attention of

*Desp. to Secy. of  
State, No 68, d.  
9th March 1899.*

the Political Agent and of the Darbars. Again in January 1904 the Government of India amended the Mhow, Neemuch and Nowgong Excise Law so as to bring under control the traffic in opium in those cantonments, and in July 1904 they passed a somewhat similar law for the Indore Residency Bazaars, the Indore Darbar adopting an excise law in similar terms.

With a view still further to improve opium and excise arrangements generally in the Native States of Central India, the Government of India deputed a special officer during the cold season of 1904-05 to report on the existing position. This officer's report, which is now awaited, will presumably lead to a settlement of most of the outstanding points.

12. (i) *Chandernagore*.—The Opium Convention with the French Administration at Chandernagore was renewed for five years with effect from the 1st January 1899, and again for one year with effect from the 1st January 1904, and then for two years more. The Government have now sanctioned a further renewal for five years with some modifications of the previous conditions which will more effectively prevent illicit traffic between French and adjacent British territory.

*For. Dept. letter  
No. 1566-I.A., d.  
1st May 1905.*



## CHAPTER VI—EXCISE.

1. *Introductory.*—The principal figures relating to excise revenue and the consumption of country spirits have already been noticed in Part I, Chapter VI, a fuller account of excise policy and administration being reserved for the present chapter. The most important general measures of the period are the recent restatement of policy; the constitution of a strong committee to secure its being brought into full effect; the improvement of the quality of the country spirits in ordinary use; and the proposals for the readjustment of the taxation on country spirits, imported spirits, and spirits locally manufactured after European methods. Throughout the seven years there has also been a constant advance in the standards of provincial administration, more particularly in Bengal and the Central Provinces. Special attention is also due to the steps taken to check the spread of drunkenness among the tea-garden coolies in Assam.

These measures, as they exhibit with special clearness the leading aims and practical difficulties of excise administration, may with advantage be described at the outset, the minor incidents being then examined separately, by provinces, under the three heads Country Spirits, Hemp Drugs, and Rum and Beer.

2. *Principal measures: (a) Statement of excise policy.*—In January 1904 the Honourable Mr. (now Sir F.) Lely, an additional member of the Viceroy's Legislative Council, submitted a memorandum to the Government of India on the subject of the liquor traffic. He did not suggest any change in the policy of Government, but urged that its spirit did not entirely permeate to those who have to carry it out, and offered a number of specific suggestions designed to discourage the drinking habit and to demonstrate more convincingly "that Government is on the side of abstinence." This memorandum was circulated to Local Governments with an expression of the Government of India's concurrence in certain of Mr. Lely's proposals, especially as regards the location of shops, and a general statement of the principles underlying their excise policy. The following sentences may be quoted:—

"It would be a matter of great regret . . . if it were true, as stated by Mr. Lely, that the belief prevails generally among the native community that the Government deliberately fosters the liquor traffic for the sake of the revenue which it produces. . . . In the various general instructions which have been issued from time to time by the Government of India the raising of revenue has never been set forth as a primary object of excise administration. It is possible, however, that the spirit of these instructions has not permeated to all the officials who administer the excise laws, and that departmental officers may in some cases be led by zeal for the efficient administration of their department to regard the revenue derived from the taxation of spirituous liquors as an end in itself rather than as a means of checking consumption. The Government of India desire that it may be impressed upon such officers that the growth of excise revenue is to be regarded as satisfactory only when it results from the substitution of licit for illicit manufacture and sale, and not from a general increase of consumption. To quote the words of Mr. Lely, it should be made clear that the Government is on the side of abstinence. . . . In conclusion . . . it cannot be too strongly impressed on the administering officers that the Government policy is to discourage drinking and to do all that is possible without undue interference with the liberty of the subject to suppress the degrading and demoralizing habit of intoxication."

3. (b) *Appointment of an Excise Committee.*—In September 1905 the Government of India appointed a strong Committee under the presidency of Sir J. Thomson, K C S I., a member of the Madras Government, and including

*Letter No. 2455-  
S.R., d. 21st April  
1904 (Part III,  
page 434).*

*Resolution No.  
5001-Exc., d. 7th  
Sep. 1905 (Part  
III, page 437).*

expert representatives of the principal provinces, to examine the progress of Excise Administration in respect of intoxicating liquors and to promote reforms therein. The order of reference explained that there was no intention to modify the general lines of excise policy which the Government of India have enunciated on more than one occasion, and it was recognised that the detailed application of this policy in the various provinces depends so largely upon local administrative conditions and upon the character and habits of the people concerned, that an approach to absolute uniformity is neither attainable nor desirable. But it seemed to the Government of India that the diversities of system which now prevail are greater than can be justified by such considerations, and that the experience of one province might with advantage be utilized elsewhere to a greater extent than has hitherto been the case. As instances of matters in which reform is specially required in some provinces, the Government of India pointed to the large areas still supplied by outstills, the crude and unsatisfactory character of some of the local distillery systems, and the low rate of taxation of country spirit. The Committee was accordingly asked to examine the excise administration of each province except Burma where the principal excise problems are connected with opium rather than liquor; to consider how far it is calculated to give the fullest practical effect to the Government's general policy; and to suggest, in consultation with the Local Governments, such alterations as may seem desirable in view of local conditions and in the light of what has been found successful elsewhere. These general instructions were supplemented by a number of specific suggestions which it will not be necessary to recapitulate. It is the intention, clearly stated in the order of reference, that the Committee's enquiries shall be exhaustive, and its constitution justifies the hope that its final recommendations will lead to a general levelling up of the standard of efficiency in the provinces which are now least advanced, and to a closer approach in practice to the principles and policy which the Government of India have laid down. The Committee assembled in Madras on the 16th October.

4. (c) *Enquiry into the quality of country spirits.*—The Government have had under separate consideration the question whether measures cannot be adopted to secure an improvement in the quality of the country liquor which is sold throughout India. But they have been confronted with the difficulty that little or no information exists as to the particular constituents which possess noxious properties, the quantities in which each is ordinarily present, and the degree in which their toxic effect is modified by the processes of manufacture. Nor are there any recognized tests by which the quality of liquor from this point of view can be determined, readily and with practical accuracy, by an unskilled operator.

*Letter No. 3914-Exc., d. 20th June 1904 (Part III, page 443).* The Government have accordingly deputed an officer of the Indian Medical Service to investigate these questions on practical lines. The enquiry has been somewhat prolonged owing to the scientific difficulties involved and the multiplicity of materials and processes in use in different parts of the country, but an *ad interim* report already submitted shows that results of practical value may eventually be expected.

5. (d) *Enhancement of the duty on imported spirits.*—In April 1905 the Government of India consulted Local Governments on a proposal to raise the tariff rate of duty on spirits imported into India by sea. It was observed among other arguments, all pointing strongly to the desirability of such a measure, that the taxation on country spirits had in a large number of cases

*Letter No. 1976-Exc., d. 6th April 1905.*

risen above that levied on imported liquor, with the result that it was becoming impossible to tax the country liquor in ordinary use among the populations of India as highly as considerations of temperance required. It was accordingly proposed to raise the duty on imported spirits from Rs. 6 to Rs. 7-13-0 per proof gallon. With a single exception, the proposal was accepted in principle by all the Local Governments, but it was suggested by some of them that a smaller immediate enhancement would be more suitable. The Government of India were of opinion that on the merits of the case the duty might legitimately be fixed at Rs. 8; but having regard to the facts that this would involve an increase of 33 per cent. on the present rate and that previous enhancements had been at the rate of one rupee only they decided for the present to limit the proposed addition to this amount. It has accordingly been decided to ask the Secretary of State to sanction the enhancement of the rate to Rs. 7 a gallon, and to authorize the Government to undertake the necessary legislation. The enhancement will involve a corresponding increase of the duties levied on liqueurs and perfumed spirits and of the excise on spirits produced in India after European methods and made up to resemble foreign liquor.

6. (e) *Readjustment of the taxation on "rum".*—In January 1904 the Government took up the question of removing certain disadvantages from which the rum industry in India was alleged to suffer, and consulted Local Governments on the following points :—

(i) Whether the policy pursued in respect of spirit manufactured in India after European methods had the effect of discouraging the local industry.

(ii) Whether it hampered the sugar-refining industry.

(iii) Whether it encouraged the consumption of cheap imported spirits, thereby displacing the local product which had also to face the competition of "country spirit".

From the replies received it appeared that the Local Governments generally were not in favour of any reduction in the duty on rum and that no such reduction would be compatible with the policy of regulating the import and excise duties on spirituous liquors with direct reference to the taxation levied on country spirit. It was also found that the Indian distiller of European spirit was not handicapped in his competition with foreign liquor. But at the same time it was observed that plain spirit manufactured in India by European methods was not sold in all provinces under the same conditions and subject to the same rates of duty as were applicable to ordinary "country spirit." It was considered that equality of treatment within the same provincial limits would afford a starting point for the provision of country spirit by large and well equipped distilleries in provinces where the crude indigenous methods of manufacture still obtain, and would thus be highly advantageous from the administrative point of view as well as to the consumer himself. The Governments of provinces in which the system of equal treatment was not already in full force were accordingly asked to report to what extent they would be prepared to extend or introduce it, and their replies are now awaited.

*Resolution No.  
1975-Exc., d. 6th  
April 1905.*

7. *Provincial administration: (a) Bengal.*—The amendment of the Bengal **COUNTRY SPIRITS, &C.** Excise Act, 1878, was originally approved by the Government of India in 1895 with the object, among other improvements, of enabling the Local Government

to introduce the Madras tree-tax system of *turi* revenue. This scheme was subsequently dropped, as it was found to be unsuitable to the conditions of Bengal. But it was decided to proceed with legislation on other grounds, one of these being the supposed necessity for regulating the trade in cheap German spirit. Further enquiry on the last point appeared to show that this spirit is not, as has been commonly thought, unusually deleterious, and regulation will therefore be confined to the licensing of the process of bottling, the object in view being to prevent deception in connection with the sale of such spirit but not otherwise to restrict its consumption. In July 1902 the Government of Bengal submitted a revised Bill which was approved in 1903 and introduced in the Bengal Legislative Council. But the Select Committee to which the Bill was referred made some important amendments specifying the manner in which local opinion as to the sites of liquor shops should be consulted. At present the reference to public opinion on such matters is regulated only by executive rules and instructions, and largely depends, as the Local Government pointed out, on the idiosyncracies of individual officers. It was proposed to incorporate in the Bill definite provisions requiring reference to Municipal Boards and creating a system of appeal against the recommendations of local officers. The Government of India, to whom the Bill was again referred in April 1904, declared their unreserved acceptance of the policy of giving full consideration to the honest and reasonable objections of the public, and of ascertaining local opinion in some more definite and systematic mode than is now generally adopted. But they saw serious practical objections to the formulation of precise regulations in a statute and in particular to the special procedure defined in the Bengal Bill; and the Bill was accordingly returned for a revision of the proposals on broader lines which the Government of India's letter laid down. Their suggestions were generally accepted and a revised Bill giving effect to them is now under consideration.

Letter No. 6208-  
Exc., d. 30th Sep.  
1904 (Part III,  
page 445).

Desp. to Secy of  
State, No. 366, d.  
12th Dec. 1901.

In 1893 the Government of India pointed out to the Government of Bengal that the low incidence of the revenue derived from country spirit in the distillery areas as compared with the outstill tracts indicated the prevalence of illicit practices on a considerable scale, and invited the Local Government to consider a number of remedial measures. The reform first undertaken was the strengthening of the excise preventive establishments, which was sanctioned in 1901 at an increased annual cost of Rs. 65,418. Subsequently it was decided gradually to introduce throughout Bengal spirit manufactured after improved European processes, and to abolish the outstills except in a few isolated and sparsely peopled tracts. The Excise Commissioner of Bengal was accordingly deputed in May 1904 to study the working of the country spirit excise systems in the Madras and Bombay Presidencies. As a result of his enquiries it has been decided to introduce the "contract distillery system," which is in force in Madras, into the Midnapur district and the districts of the Orissa Division with the exception of Angul, as an experimental measure, and to extend the system later on to other tracts if it is found to be successful. When the new arrangements have been fully introduced, it will probably be necessary to effect a further strengthening of the preventive establishments and to improve their organisation.

Letter No. 8029-  
Exc., d. 20th Dec.  
1904.

Letter No. 659-  
Exc., d. 31st  
Jan. 1905.

8. (b) *Central Provinces and Berar*.—Reference has already been made in Part II, Chapter V (Opium) to the appointment of a Committee in 1903 to enquire into the excise administration of the Central Provinces and Berar.

As a result of its recommendations the following reforms relating mainly to country spirits have been or will shortly be introduced :—

*Letter No. 3947-  
Exc., d. 11th July  
1905.*

(1) The bulk of the outstill areas in the Central Provinces will be gradually converted into distillery areas and the existing distillery systems will be improved on the model of the contract distillery system in force in Madras. In Berar the latter system had already been introduced in 1899 into 13 out of 22 taluqs, and its extension to the rest of the province was sanctioned with effect from the 1st April 1905.

*Letter No. 585-  
Exc., d. 27th Jan.  
1905.*

(2) For areas left under outstills in the Central Provinces, it is proposed that there should be a reduction in the number of shops, the capacity of the stills being limited and the working hours prescribed. The number of shops in the distillery areas is also to be limited.

(3) The manufacture and sale of beer will be subjected to better control; and the same action will be taken in regard to the sale of "foreign liquors" generally. The possession and sale of methylated spirits will also be regulated.

(4) Steps will be taken to encourage the sale of *tari* (which is a comparatively innocuous drink) in preference to distilled liquor, and at the same time to subject it to adequate taxation. On the understanding that local conditions are favourable, the Government of India have agreed to the experimental introduction of the tree-tax system in one district of Berar.

(5) Influence will be brought to bear on the zamindars of the Central Provinces, through the district officers, with a view to the reduction of shops and stills in their zamindaris, and as soon as the revision of the excise arrangements of the province generally have been completed the zamindars will be moved to revise their arrangements on similar lines. The same action will eventually be taken in regard to the Feudatory States, and meanwhile the management of outlying portions of these States which are surrounded by British territory will be taken over by the Government.

*Letter No. 3460-  
Exc., d. 14th June  
1905.*

(6) The preventive establishments both in the Central Provinces and Berar had already been strengthened. A further addition will be made involving eventually a total net additional expenditure of Rs. 1,60,188 a year.

*Desp to Secy of  
State, No. 175, d.  
18th May 1905.*

(7) The Excise Act, 1896, which is in force in the Central Provinces, has been applied, with the necessary modifications, to Berar, and the special Excise and Hemp Drugs Laws enacted for that province in 1897 have been repealed.

*Notification No.  
4194 Exc., d. 9th  
Aug 1905.*

The Committee's proposals for the improvement of hemp drugs administration will be found in paragraph 25 of this chapter.

9. (c) *Assam*.—In 1902 the Chairman of the Assam Branch of the Indian Tea Association submitted to the Chief Commissioner of Assam a memorandum arraigning the working of the excise system in that province and suggesting a number of remedial measures. With the memorandum was included a collection of evidence relating to the spread of drunkenness among the tea garden coolies and to the defective supervision of the outstill system which was in force throughout Assam. These complaints were very fully investigated by the Chief Commissioner who found himself able to adopt many of the suggestions put forward. The Government of India to whom the question was then referred supplemented the Chief Commissioner's action by further measures, the most important of these being the experimental substitution of the central distillery system for the outstill system in a selected district; the increase of the staff of

*Letter No. 2015-  
S. R., d. 26th  
March 1904 (Part  
III, page 450).*

Excise Inspectors from three to eight; and the reduction of the maximum limit for retail vend from six to three bottles. The gravity of the problem was unreservedly admitted by the Government of India, but its practical solution is a matter of extreme difficulty. The garden coolies are to a large extent recruited from drinking castes and tribes, though the drinking habit may remain undeveloped till brought out by the possession of ready cash. Assam is very sparsely populated, communications are defective, and the opportunities for illicit distillation unlimited. The outstill system, with all its disadvantages, has therefore been almost inevitable, and indeed the planting community themselves have not advocated any radical or universal change. The Government of India, as they observed

*Dep. to Secy. of State, No. 97, d. 31st March 1904 (Part III, page 456).*

to the Secretary of State, are trying to feel their way to the introduction of a better system, but meanwhile "the main path to reform lies in more systematic inspection and closer control over the liquor shops" which the foregoing measures and the co-operation of the planting community will ensure. The Secretary of State concurred in this policy, and the correspondence, which had attracted widespread attention, was published for general information and also circulated for the guidance of Local Governments and excise officials as an authoritative statement of the policy of the Government of India in respect to the important general questions which the discussion had raised.

*Letter No. 946-Ex., d. 16th Feb. 1901.*

10. (d) *Bombay and Portuguese India.*—At the instance of the Government of India, the Bombay Government have considered the question of modifying the "district monopoly system" which regulates the manufacture and vend of country spirits in the greater part of that province. Under this system a single contractor, selected by the Commissioner of Abkari, is given the monopoly of manufacture and vend throughout an entire district or other area. The contractor pays still-head duty on liquor issued from the distillery and engages that the sum so paid shall not fall below a fixed annual minimum whatever the quantity of liquor actually sold. He is also required to maintain a suitable preventive establishment at his own cost. This system, which has been found to lead to loss of revenue and to give undue power to the contractors, has now been tentatively abandoned in six districts, the rights of manufacture and retail vend being dissociated and auctioned, and the "minimum guarantee" being abolished except in two districts where it was urged that the facilities for illicit distillation rendered it necessary to require a modified form of guarantee from the retail vendors. The experiment has necessitated a considerable increase in the Government preventive establishments.

In 1892 the Government of India after prolonged discussion sanctioned the introduction of the Mhowra Flowers Act, 1892, by which power was taken to restrict the traffic in mhowra flowers in the districts of Thana and Kolaba. This proscription of an article which has a legitimate use as food was an unusual step, justified by the facts that in the districts named the flowers were actually used almost exclusively for illicit distillation; that such illicit distillation was universally practised; and that drunkenness was consequently rife. In 1903 the Local Government proposed to extend the measure to the Broach and Nasik districts and a part of Surat. It was demonstrated after further enquiry that the same conditions existed in these areas, and the Government of India accordingly accepted the proposal to which effect was given in 1905 by an amendment of the Bombay Abkari Act, 1878.

*Letter No. 6319-Exc., d. 5th Oct. 1904.*

The denunciation in 1892 of the Goa Treaty of 1878 dissolved the agreement by which the Government of Portuguese India undertook to assimilate their



excise system to that in force in the Presidency of Bombay ; and the Portuguese Administration appear to have subsequently permitted their excise licensees to distil liquor to an extent far in excess of their legitimate requirements, and to dispose of the spirit at prices much lower than those current in the adjoining districts of British India. No effective measures were taken by the Portuguese Government to prevent the smuggling of liquor into British territory, and the nature of the country was such that the illicit traffic could not be checked to any appreciable extent by the exertions of the British officials. The Government of Portuguese India were addressed on the subject on several occasions, but these representations proved ineffective. A possible remedy lies in the prohibition of the export from British territory of the raw materials from which liquor can be distilled, but before resorting to measures of this nature the Government of India addressed the Secretary of State with the object of arriving at an amicable settlement by means of negotiations between His Majesty's Government and the Portuguese authorities in Europe. A reply to this reference is still awaited.

*For. Dept. Desp. to Secy. of State, No. 170, d. 8th Sep. 1904.*

11. (e) *Madras*.--Prior to April 1901 what was known as the "private distillery system" was in force in 17 of the Madras districts. This system was one of free competition among distillers subject to the payment of the prescribed rate of excise duty. Not only was manufacture separated from sale, but there was no exclusive privilege of manufacture in any of the areas over which the system extended. It was found, however, that the private distillery system lent itself alternatively to violent competition with an undue cheapening of the price of liquor, or, in the event of combination among distillers, to strict monopoly and the possible encouragement of illicit traffic as a result of the excessive enhancement of the price of the licit spirit. The Madras Government accordingly proposed, and the Government of India with some reluctance assented, to the abolition of the private distillery system with effect from the 1st April 1901, in favour of the "contract system" under which the exclusive privilege of manufacture and supply throughout a specified area is disposed of by tender, the successful tenderer engaging to supply the retail vendors in his district with country spirits at fixed rates. The change has proved successful from a revenue point of view, and the Government of India have agreed to the continuance of the new arrangements till the end of 1906-07.

*Letter No. 1540-Ex., d. 20th March 1901.*

12 (f) *United Provinces*.--In September 1898 the Government of India approved certain measures for the improvement of excise administration in the United Provinces of Agra and Oudh. These measures have since been generally carried out. The more important were: (1) the concentration of the business of distillation and improved methods of manufacture; (2) the enhancement of the rates of still-head duty; and (3) the strengthening of the local excise preventive establishments. In connection with the first of these measures it was decided to equip one of the Government central distilleries at the expense of Government with an improved apparatus of a kind not hitherto employed in the province, the experiment being intended to lead the way to the adoption of similar stills by private licensed distillers on their own account. To facilitate the working of the experiment and the introduction of other reforms the Government of India, with the approval of the Secretary of State, sanctioned in 1903 the appointment of an expert Assistant to the Commissioner of Excise for a period not exceeding two years (which has since been extended

*Letter No. 4142-Ex., d. 22nd Sep. 1898.*

*Desp. to Secy of State, No. 271, d. 3rd Sep. 1903.*



by six months), the officer selected being an Inspector in the Salt, Abkari and Customs Department of the Madras Presidency.

13. (g) *Burma*.—Until the end of 1904-05 the only method of supplying country spirits in Burma was the outstill system. In 1905-06 the Local Government introduced experimentally into certain selected tracts a central distillery system based on the district monopoly system of Bombay. The Government of India took exception to the extension of this system with the accompanying "minimum guarantee", and it has been decided to substitute other arrangements the consideration of which is now pending.

Letter No 3919-  
Exc, d. 10th July  
1905.

14. (h) *Bangalore* —The system of excise in the Civil and Military station of Bangalore having been found to be unsatisfactory, the Government of India in 1897 sanctioned the deputation of a special officer to report upon it. The enquiry has since led to the following improvements: (1) the adequate and independent supervision of the supply and distribution of arrack obtained from the Mysore Darbar's distillery in Bangalore City; (2) independent arrangements for obtaining revenue from toddy by means of a tree tax and the sale of vend licenses; (3) the adequate regulation of the manufacture of beer which had previously contained an undue amount of alcohol believed to be obtained from smuggled arrack; (4) more complete regulation of "foreign liquor" shops; and (5) improved ganja and opium arrangements. The execution of these reforms involved the maintenance of a separate excise preventive establishment costing Rs. 12,552 per annum, which was duly sanctioned by the Secretary of State.

Desp. to Secy. of  
State, No. 147, d.  
11th May 1899.

In 1903 the Excise Act, 1896, as applied to the Civil and Military station, was modified in certain respects, and revised rules relating to hemp drugs and spirits were framed under the Act as modified, and published in January 1904.

15. *Miscellaneous*: (a) *Methylated spirit*.—Methylated spirit when rendered effectually and permanently unfit for human consumption pays a duty of only 5 per cent. *ad valorem*, in lieu of the much higher Customs and Excise charges on potable spirit. In 1897 caoutchoucination was suggested to Local Governments as an effective method of rendering methylated spirit non-potable. But in 1899 the Bombay authorities discovered that this method might be defeated, and after consulting the Local Governments and ascertaining the English practice, the Government of India directed that, when there was reason to believe that the denaturalisation of methylated spirit by caoutchoucine was being circumvented to the detriment of the revenue, the English method of using crude wood-naphtha supplemented by mineral naphtha should be tried. The Government of India also prescribed the English method of licensing and inspection, and directed the imposition of a limit beyond which persons not specially licensed should not be allowed to possess methylated spirit for their private use. In June 1905 they instituted a further enquiry into the possibility of introducing a better system of denaturalization.

Resolution No.  
2675-E, d. 31st  
May 1900.

16. (b) *Cocaine*.—In the early part of 1900 the attention of the Government of Bengal was drawn to the somewhat extensive sale of cocaine in Calcutta. It was alleged to be sold by native tobaccoists and betel-sellers and in opium smoking saloons, and to be used as a narcotic by men, women and even boys. To prevent the spread of this habit cocaine was declared by the Local Government to be an "intoxicating drug" for the purposes of the Excise Law, and steps were taken in 1902 to prohibit its sale except for *bona-fide* medicinal purposes by restricting the right of vend to duly licensed chemists and druggists. Similar action has been since taken by the Governments of Bombay, Madras

Letter from Govt.  
of Bengal, No.  
974-S R., d. 18th  
Feb. 1902.

and Burma, and legislation has recently been undertaken in the United Provinces with the same object.

17. (c) *Employment of European barmaids.*—In 1903 and 1904 the Excise Acts in force in Bengal and Burma were amended so as to provide for the control of places which are licensed for the sale of liquor, and in particular to enable the Local Governments to prohibit the employment of European barmaids in Calcutta and Rangoon.

*Home Dept. letters Nos. 209 and 210, d. 4th Nov. 1902.*

18. (d) *Amendment of the Excise Act, 1896.*—The question of amending the Northern India Excise Act (XII of 1896) was raised by the Government of the United Provinces in 1903 and has been for some time under discussion. In 1904 the Government of India consulted the Governments of the other provinces to which it applies (the Punjab, Burma, the Central Provinces and the North-West Frontier Province) and on a consideration of their replies it was decided to refer the matter for the opinion of the Excise Committee.

*Letter No. 3130-S.R., d. 18th May 1904.*

19. *Hemp Drugs Commission, 1893.*—The report of the Hemp Drugs Commission of 1893 led to the reform of hemp drugs administration throughout India. The cultivation of the plant was controlled and centralized, the traffic in hemp drugs was regulated, adequate quantitative taxation was imposed and the amount which could be legally possessed was restricted. The account of these measures belongs for the most part to the history of Lord Elgin's administration, but they are again briefly summarized by way of explanation of the supplementary measures about to be noticed.

**HEMP DRUGS.**

20. *Production in Bengal.*—In June 1900, the Government of India laid it down that the maximum area under ganja cultivation in Rajshahi, one of the great producing centres, should not be allowed to exceed 976 acres without their previous sanction. In January 1904 a special officer was deputed by the Government of Bengal to report upon the system of cultivation, manufacture and storage of ganja in that district. As a result of his recommendations the duty on the different varieties of Bengal ganja has been equalised and various other reforms have been effected or undertaken in the system of licensing the cultivation of the drug and of packing and storing it, and in the measures adopted for the prevention of smuggling.

*Letter No. 1073-Ex., d. 25th Feb. 1903.*

*Letter No. 2179-Exc., d. 19th April 1905.*

21. *Import from Central Asia.*—Leh is the place at which all or most of the Central Asian charas, whether licit or smuggled, concentrates before it finds its way into Kashmir or the Punjab. Routes are prescribed by which alone the charas can be legitimately admitted into the Punjab, but it was brought in surreptitiously by other routes; and in the absence of any proper system of check or record at Leh, it was impossible to get on the track of systematic smuggling. The Punjab Government accordingly proposed in 1903 to establish a warehouse for the storage of charas at Leh under the charge of a special officer, to require all charas arriving there from Yarkand to be deposited in the warehouse, and not to allow it to be passed thence for consumption in British India or the Kashmir State except under cover of a pass. These proposals were tentatively sanctioned for a period of two years in January 1904, and the warehouse was established after the necessary arrangements had been made with the Kashmir Darbar.

*Letter No. 437-S.R., d. 20th Jan. 1904.*

The Mehtar of Chitral has also agreed to levy a heavy duty on charas passing through his territory with the object of preventing smuggling into India by that route; and the Kashmir Darbar has also raised its rates.

22. *Provincial administration : (a) Various changes in rules and rates.*—The system of hemp drugs administration being of recent origin, there have been many changes in rules and rates of duty. New or revised rules have been issued in the Punjab, Berar, Coorg and Baluchistan ; and the rates of duty on one or other of the different forms of the drug have been enhanced in practically every province.

*For. Dept. letter  
No. 4285-I.A., d.  
14th Sep. 1903.*

23. *(b) Bombay.*—The recommendations of the Hemp Drugs Commission could not be fully applied to the Bombay Presidency till the Bombay Abkari Act, 1878, was amended in 1901. The adoption of the general measures of reform necessitated a revision of the arrangements with the Bombay Native States, the proposals of the Local Government being accepted by the Government of India in September 1903. Subsequently, to prevent smuggling from Hyderabad, it was suggested that the Nizam should be moved to assimilate the system of hemp drugs administration in Hyderabad territory to that obtaining in Bombay ; and the Government of India directed that the Commissioner of Abkari, Bombay, should personally discuss the measures to be suggested to the Nizam's Government with the Resident at Hyderabad. The results of this consultation are awaited.

*For. Dept. letter  
No. 935-I.B., d.  
5th March 1904.*

24. *(c) Burma.*—The Hemp Drugs Commission also recommended that the supply of hemp drugs to (non-Burman) natives of India residing in Burma, which though legally prohibited is carried on illicitly, should be recognised and controlled, and a scheme to give effect to this recommendation was submitted by Lord Elgin's Government in November 1898. It was not, however, unanimously supported by the Members of the Executive Council, and in view of this fact and of the strong opposition of native Burman opinion the Secretary of State considered it inadvisable to withdraw the existing prohibition which had then been in force for over 25 years.

*Desp. to Secy. of  
State, No. 352, d.  
10th Nov. 1898.*

25. *(d) Central Provinces and Berar.*—As a result of the enquiries made by the Central Provinces Excise Committee of 1903 it has been decided to introduce the following reforms in the hemp drugs arrangements of the two Provinces :—

*Letter No. 3460-  
Exc., d. 14th June  
1905.*

(1) Extension to the Central Provinces of the system of free supply of *ganja* obtaining in Berar under which the wholesale licenses are granted free of charge to applicants who may be themselves retail vendors ; concentration of the area under *ganja* cultivation ; the exercise of stricter control over the cultivation, manufacture, transport, issue and sale of the drug within the provinces and over its supply to the Feudatory States ; enhancement of the duty within the provinces and the levelling up of the rates at which it is supplied to the Feudatories ; and lastly, the adoption of measures to prevent smuggling from the adjoining British provinces and Native States.

(2) More adequate control over the import and sale of *bhang* ; prohibition of the sale in Berar of the so-called ' local *bhang* ' or refuse *ganja* ; and the enhancement of the duty from R. 1 to Rs. 2 a seer.

(3) Regulation of the import and sale of *charas*, and reduction of the duty, which was at a rate calculated to encourage smuggling, to the level obtaining in other provinces.

#### RUM & BEER.

26. *Supply of rum and beer to troops.*—In 1897 the Government of India decided to discontinue the issue of duty-free rum to soldiers in India whether British or Native, and directed that the selling price of rum should be raised by

two annas a reputed quart or about one-eighth of the normal duty, and that this duty should subsequently be gradually enhanced. The measure was extended in the following year to Sikhs and Gurkhas serving in the Burma Battalions, in the Upper Burma Military Police, and in the Military Police force stationed in the Arakan Hill Tracts. The duty was again enhanced in 1899 by 12 annas a proof gallon, and in 1900 it was further increased to Rs. 2. The main obstacle to any considerable further enhancement lies in the danger that it may encourage the soldier to consume the less wholesome native spirit.

*Mily. Dept. letters  
Nos. 4536-D, d.  
19th July 1900, and  
5402-D, d. 29th  
Aug. 1901.*

The contracts with Indian brewers for the supply of malt liquor to British troops in the Punjab and Bengal Commands and the Quetta District were renewed for a further period of five years, with effect from the 1st January 1903, on the existing terms supplemented by provision for a possible increase in the rate of excise duty.

*Mily. Dept. letter  
No. 5993-D, d.  
27th Sep. 1901.*

## CHAPTER VII.—SALT.

1. *Introductory.*—The principal events of the period are the double reduction of the salt duty and the appointment of a Salt Committee to examine certain questions relating mainly to salt administration in Bombay and Northern India. These measures will therefore be noticed first.

2. *Principal measures : (a) Reduction of duty.*—In March 1903 the duty on salt was reduced generally from Rs. 2-8-0 to Rs. 2-0-0 a maund except in Burma and at Aden where specially low rates of duty were already in force. The duty on Kohat salt was at the same time fixed at Re. 1-8-0 per Indian maund of  $82\frac{7}{8}$  lbs. avoirdupois, in lieu of Rs. 2 per Lahori or Kohat maund ( $102\frac{1}{2}$  lbs.), and the duty on Mandi salt was reduced from  $7\frac{1}{2}$  annas to 6 annas a maund. In March 1905 the general reduction from Rs. 2-8-0 to Rs. 2-0-0 was followed by a further reduction to Re. 1-8-0, and the duty on Mandi salt was correspondingly reduced to  $4\frac{1}{2}$  annas, other special rates remaining unchanged. These measures have been further noticed in Part I, Chapter VI. As the rates of duty on Cis-Indus and Kohat salts were thus assimilated, it became possible to remove the restrictions which had previously been required to prevent the smuggling of Kohat salt across the Indus.

*Notification No.*  
*1542-S. R., d. 18th*  
*March 1903.*

*Notification No.*  
*1727-Exc., d. 22nd*  
*March 1905.*

*Notification No.*  
*2960-Exc., d. 23rd*  
*May 1905.*

3. *(b) Salt Committee.*—In 1889 the Secretary of State suggested that the Government of India might consider the question of placing the salt administration throughout India under the control of a single Director, but the scheme was then negatived. In 1901 the matter was again considered, the proposal in this case being to amalgamate the administration in Bombay and Northern India. The Government of India decided to refer the question for investigation by a small committee of officers possessing special knowledge of salt administration ; and the opportunity was taken to include in the reference the following further questions :—

*Resolution No.*  
*4844-S. R., d. 11th*  
*Aug. 1903.*

- (I) The expediency or otherwise of amalgamating the Bengal Salt Department with the Northern India Salt Revenue Department.
- (II) A proposal, which had been more than once pressed by the Madras Government, to make the retail sale of salt by weight compulsory in that Presidency.
- (III) The question of restricting the production of light large-grained salt.
- (IV) A proposal to provide for the introduction into Assam of an Inland Bonded Warehouse System ; and other questions connected with the transport of salt in bond and the wastage allowance for bonded salt.
- (V) The question of the supply of duty-free salt to the States of Travancore and Cochin.
- (VI) The question of the sale of salt by Government agencies in the Bombay Presidency, and the system of supply in Bombay and the Deccan.

The committee submitted its report in March 1904. On its advice the Government of India decided not to proceed with the amalgamation of the Bombay and Northern India Departments ; and though at first disposed to approve the committee's recommendation to transfer the administration of salt revenue in Sind to the Northern India Salt Commissioner, they have since

agreed, in deference to the views of the Local Government, that the control shall continue to be vested in the Commissioner in Sind who will be provided with an adequate establishment, under a special Assistant Commissioner, dealing conjointly with Salt, Opium and Excise. The Government of India have also accepted the committee's recommendation to abolish the system of requiring a license for the retail sale of salt in Sind except in areas in which the danger of illicit practices is extreme; and they have issued instructions for the readjustment of prices at the producing centres in Sind and at the Sukkur dépôt. Of the other proposals stated above the first and second were negatived. It was decided that the present method of producing light salt in Bombay was not injurious to the revenue and might be continued with a few minor safeguards suggested by the committee. As regards bonding arrangements generally, the Government of India have decided, with the concurrence of the Bengal Government, to accept the principle laid down by the committee that no new inland bonded warehouse shall be established unless salt can be conveyed to it direct by water from the source of supply. Where transit is by rail distribution can be more conveniently stimulated by a credit system such as obtains in Madras and Bombay, and steps are about to be taken for the introduction of such a system throughout Bengal. The Government also approved generally some suggestions relating to the substitution of public for private warehouses, and to the exercise of greater stringency in regard to wastage allowance. In the case of Assam it was found that there was no real demand for public bonded warehouses and this proposal was accordingly dropped. The question of establishing private bonded warehouses in riverain tracts was deferred till the formation of the new province of Eastern Bengal and Assam.

As regards the fifth question, the committee advised that subject to slight modifications in detail the present arrangements with Travancore and Cochin do not require revision, and this view was accepted by the Government. The committee's examination of the sixth question has led, after further reference to the Local Government, to the introduction of free competition in the tracts previously served on a monopoly system by Government agencies for the supply of salt to sale centres and to the revision of the sale price of Government salt with closer reference to the actual cost of production. Certain proposals for the maintenance of reserves of sea-salt were also discussed, experience having suggested that some such precaution was required to prevent an extreme rise of prices in seasons when the year's production is abnormally and unexpectedly low; but the Local Government was able to indicate valid objections to the insertion of conditions with this object in the licenses of salt manufacturers and to the maintenance of a reserve by the Government themselves, and it was ultimately decided that the requirements of the case would be sufficiently met by the opening of a new set of sea-salt works capable of adding  $1\frac{1}{2}$  million maunds to the present annual output. This measure was accordingly sanctioned.

*Letter No. 5135-  
Exc, d. 15th Sep.  
1905.*

*Letter No. 1439-  
Exc, d. 10th March  
1905.*

*Letter No. 1010-  
Exc, d. 16th Feb.  
1905.*

4. *Provincial administration: (a) Bengal.*—After deciding to abandon the proposal to amalgamate the Bengal and Northern India Salt Departments, the Government of India accepted and obtained the Secretary of State's sanction to certain alternative proposals for the reorganization of the department which the Local Government had submitted in 1903. The general effect of the scheme, which involved an initial expenditure of Rs. 90,000 and a recurring annual expenditure of Rs. 60,000, was to introduce a closer control by district and divisional officers; to provide preventive

*Desp. to Secy.  
of State, No. 443,  
d. 5th Dec. 1904.*

establishments on a large scale where the staff then existing had been found inadequate; and to create new preventive agencies in certain saliferous areas where none existed and the salt duty was believed to be extensively evaded. It was found, however, before the new arrangements came into force, that there had been a marked diminution in illicit manufacture and much of the expenditure originally contemplated had become unnecessary. Certain parts of the scheme are therefore in abeyance.

*Letter No. 5108-  
Exc., d. 12th Sep.  
1905.*

In September 1905 the Government of India agreed to the abolition of the *rawanna* or pass system for transport of salt which had been enforced in Bengal, over a larger or smaller area, from the days when salt manufacture was a Government monopoly and its importation into the province was prohibited. Under present conditions local manufacture, whether public or private, has now been wholly discontinued and the salt consumed in Bengal is imported in steamers smuggling from which can be effectively checked. The pass system has thus become obsolete, and there is reason to suspect that it assisted rather than checked illicit operations. In any case it hampered trade and interfered with distribution and could only be justified on the slender ground that it supplied a certain amount of not very valuable statistical information.

*Letter to Govt.  
of India, No  
348-T. S. R., d.  
24th July 1905.*

The question of amending the local salt law in Bengal (Act VII of 1864) has been under consideration for some years past. The Local Government has recently expressed the view that a new local enactment is unnecessary as most of the objects desired can be attained without legislation and by the application of the general Indian Salt Act of 1882. It has suggested, however, that this Act requires amendment with a view to giving salt officers more independent power of enquiry into salt offences. This question is still under consideration.

*Letter No. 184-  
S. R., d. 9th Jan.  
1904.*

5. (b) *Madras*.—In 1904 the Government of India, after consultation with the Government of Madras, formulated a system under which exporters from the Madras Presidency are allowed to ship their salt without prepayment of duty and without any limit to wastage allowance, provided that the salt is exported in vessels of not less than 1,000 tons burden and is (if so required) accompanied to its destination by a preventive officer. This system will place salt manufactured in the Madras Presidency on practically the same footing as foreign salt imported by sea, and will have the effect of remitting the duty on cargoes which are lost at sea. It does not supersede the system of export on prepayment of duty or under the credit\* system, with a fixed allowance of 2 per cent. for wastage, but offers an alternative procedure which the exporter may make use of at his option.

*Letter No 8032.  
Exc., d. 20th Dec.  
1904, and No. 3791-  
Exc., d 1st July  
1905.*

In 1903 the Oriental Salt Company, Limited, complained that the Madras Government was competing unfairly with its business by selling off salt at a loss. The Government of India were of opinion that such sales might in special cases be necessary and were not open to objection if the net result of the department's transactions taken as a whole was to exhibit a profit. But they issued instructions to the Local Government for the more accurate preparation of the profit and loss account of the Government factories, and directed the inclusion of some charges which had previously been disregarded.

6. (c) *Burma*.—As mentioned in paragraph 119 of the summary of Lord Elgin's administration, the Government of India have for some time past been

\* Under this system payment of duty may be postponed for six months on deposit of Government paper or other recognized securities.



endeavouring to secure the more adequate taxation of salt produced in Burma, which was assessed on the estimated productive capacity of the vessels employed in manufacture instead of directly on the quantity of outturn. The rates of composition duty on the local produce were equivalent to less than half the direct duty of Re. 1 per maund on imported salt. This was pointed out by the Government of India in August 1899, and as a result of the ensuing discussion the composition rates were enhanced by about 25 per cent. in 1900, and the experiment of direct taxation was tried in several districts, the duty being temporarily fixed at the low rate of 8 annas a maund, partly by way of allowance for the high percentage of moisture in salt of Burmese production and partly with the object of overcoming the initial unpopularity of the new system. The experiment is now being extended to all the more important salt-producing districts, but its results will be again reviewed at the end of 1903 with a view to fixing the future rate of duty.

*Letter No. 3627-  
S. R., d. 9th Aug.  
1899.*

7. (d) *Baluchistan*.—In 1901 the Government of India authorized the imposition of a duty of Re. 1-8-0 per maund on all Kelat salt imported into British Baluchistan, whether by rail or road, such salt having previously escaped duty when imported by road. The Government also legalized the duty of Re. 1-8-0 per maund on earth-salt manufactured at Segi and consumed at Quetta, and imposed a new duty of Re. 1 per maund on such salt when consumed at Peshin and Killa Abdulla, where it had previously been untaxed. They also pressed the local administration to encourage the use of Indian rock-salt which was found to be only used in small quantities owing to the unfair competition of untaxed or insufficiently taxed salt of local production. In the case of the Nasirabad tahsil, which has now been leased to the British Government by the Khan of Kelat, the Government of India have directed that the manufacture of earth-salt in that tract should be prohibited, and that its administration should be made over to the Salt Revenue authorities in Sind.

*For. Dept. Letter  
No. 2170-E. A., d.  
31st Dec. 1901.*

*Letter No 4688-  
Exc., d. 22nd  
Aug. 1905.*

8. (e) *Baroda*.—In 1896 it was brought to notice that the illicit manufacture of salt from salt-earth was being extensively carried on in Baroda villages on the banks of the Mahi river. Further investigation showed that this illicit production was not being effectively repressed by the Baroda authorities, and that there was considerable smuggling into adjoining British territory. The facts were represented to the Darbar, and the Collector of Salt Revenue, Bombay, was deputed to arrange effective measures of prevention in friendly negotiation with an official of the Baroda State. The subsequent proceedings were somewhat protracted, and it was not until April 1903 that the Government of India were informed of the arrangements accepted by the Bombay Government. The new rules, which provide for the maintenance of a small preventive force, have been approved after further discussion by both the Government of India and the Darbar, and have now been brought into force.

*Letter No. 2673-  
Exc., d. 13th May  
1905.*

9. *Miscellaneous : (a) Output of Sambhar Lake*.—The manufacture of salt in the Sambhar Lake depends upon a sufficient inflow of water from the feeder streams, and in dry seasons the output is enormously diminished. Under ordinary conditions Sambhar salt yields a net revenue of over one crore of rupees, and the maintenance of the water-supply is thus a matter of grave concern. In 1900 the Commissioner, Northern India Salt Revenue, represented that the British authorities at Ajmer and the Kishengarh Darbar were diverting the water from one of the feeder streams for irrigation works, and that if the practice were to be

permitted, the lake might soon, except in seasons of flood, be left completely dry. The Government of India at once stopped the construction of the irrigation work

*Letter No. 3779. S. R., d. 13th July 1901.* at Ajmer, and after further enquiry directed in 1901 that no new works should be constructed along the feeder streams in British territory or Native States, and

*Letter No. 1372- S. R., d. 6th March 1902.* that no existing works should be enlarged or improved without previous consultation with the Commissioner. They also deputed an expert geologist to enquire

into the sources and permanence of the Sambhar salt-supply—a matter which had never previously been fully investigated, but has recently come into prominence owing to the increasing difficulty of obtaining the required output of salt. The geologist's report as far as it went was reassuring, but no final opinion could be formed till extensive boring operations had been undertaken. These have been executed by Messrs. Kilburn & Co., and the results obtained are now under examination.

*Notifications Nos. 541, 543, 545, 547 and 549-Exc., d. 25th Jan. 1905* 10. (b) *Procedure at the Rajputana salt sources.*—In January 1905 a series of notifications was issued placing the procedure for the sale and issue of salt from the Rajputana salt sources on a regular footing, and recasting the rules for

*Notification No. 3564-Exc., d. 19th June 1905.* the transmission of such salt by rail. A further notification, issued in June 1905, legalized the practice in regard to the prevention of illicit manufacture and smuggling which had previously been informally adopted at the Didwana and Pachbadra salt sources.

## CHAPTER VIII.—INCOME-TAX AND STAMPS.

1. *Income-tax : (a) Remission of taxation.*—Allusion has already been made in Part I to the exemption from income-tax of incomes under Rs. 1,000 by Act XI of 1903, and to the abolition, by Act VI of 1902, of the Pandhari cess, a special income-tax in the Central Provinces falling on incomes under Rs. 500. Chapter III of Part II notices the proposal to levy a supplementary local income-tax in connection with the Calcutta Improvement Scheme, on the model of the *centimes additionnels* imposed under Continental systems of local taxation. In 1904 the Madras and Bombay Chambers of Commerce submitted memorials urging the entire abolition of the income-tax, but the Government of India justified its retention at some length, maintaining that it was perfectly equitable in principle as it was almost the only important contribution to the public revenues made by incomes derived from trade, and observing finally that if the reduction of taxation should again come under consideration there were numerous taxes which had a prior claim to remission.

*Letter No. 1451-  
S R., d. 3rd March  
1904. (Part III,  
page 461).*

2. *(b) Extent of application.*—In 1904 the Income-Tax Act was extended to Berar in consequence of the lease of that province to the British Government by the Nizam of Hyderabad. In the case of Lower Burma the Act, though legally in force throughout the province, had previously, under executive orders, been enforced only as against Government servants and in specially selected trade centres. In 1904 the Local Government represented that, with the rapid development of the province in the previous fifteen or twenty years, new trade centres had sprung up and money lenders and others who could well afford to pay the tax were now to be found scattered throughout the rural areas. It was accordingly decided that the Act should be generally enforced with effect from 1st April 1905.

*Letter No. 7758-  
S R., d. 15th Dec.  
1904.*

3. *(c) Administration.*—There are few changes in administration to record. The exemption of the smaller incomes afforded relief to the ordinary staff, and in Bengal was followed by a large reduction of the district assessing establishments. The Government of India in 1904 arranged for a Bombay officer to visit Calcutta with a view to the assimilation and improvement of income-tax procedure in the two Presidency towns. The officer selected submitted a valuable report and his recommendations have been generally accepted by the Bengal and Bombay Governments.

In 1904 the Government of India called general attention to the abnormal increase in the number of assessments in the Rs. 1,000—1,250 grade which had followed the exemption of the smaller incomes, and appeared to indicate a tendency on the part of assessing officers to place persons in a higher class, without adequate investigation, so as to prevent their escaping taxation altogether. They pointed out that this tendency would defeat the object with which the minimum income liable to the tax had been raised and bring discredit on the good faith of the Government, and requested that measures might be taken to check the practice wherever it was found to exist. It has of course to be borne in mind that a certain increase in the number of assessments in the higher classes is a legitimate result of the more accurate enquiries which can now be made by the assessing agency owing to the reduction in work effected by the exemption of small incomes.

*Letter No. 7678-  
S R., d. 8th Dec.  
1904.*

4. *(d) Exemptions.*—The working of the Act has revealed some further defects which will be remedied when it comes under amendment. Rulings have

*Desp. to Secy. of  
State, No. 20, d.  
5th Feb 1903.*

been issued on various new points, and special cases and claims for exemption dealt with. Few of these are of special importance, but the following may be mentioned. The Treasury in England have definitely refused to take action to prevent the levy of English income-tax on incomes which have already paid income-tax in India. The correspondence was published for general information. It may be noticed here that exemption from English income-tax has been conceded by the Finance Act of 1904 (4 Edw. 7, Ch. 7) in respect of premiums paid to Indian Insurance Companies by policy-holders residing in the United Kingdom. The legality of including the interest paid on Railway Companies' debentures in the "net profits" assessable to the tax was affirmed by the Law Officers, but in view of previous decisions and practice this opinion was not acted upon. At the instance of the Secretary of State the Government of India consulted Local Governments on the question whether it was advisable to maintain the present practice of taxing the aggregate profits of companies without regard to the fact that the profits of particular shareholders when added to their other income might be so small as to entitle them individually to exemption.

*Desp. to Secy. of  
State, No. 329, d.  
29th Oct. 1903.*

There was a consensus of opinion that exemption on the latter basis would benefit an extremely small fraction of the total number of assesseees, and open a very wide door to fraud if extended, as it must be, to all business firms and partnerships. The suggestion was dropped. The correspondence however brought to notice a want of uniformity in dealing with claims for refund of the tax paid on salaries and securities, as to which the Act prescribes no

*Letter No. 1333-  
Exc., d. 16th March  
1905.*

special period of limitation, and it was ruled that all claims should be admitted if preferred within six years from the date of realization of the tax. The

*Letter No. 3381-  
S. R., d. 30th May  
1904.*

question was also raised whether income-tax should be deducted from the interest on Government paper without previous enquiry as to whether the other income of the holder is sufficient with the interest to render him liable to the tax. Under the practice hitherto followed the tax is deducted before payment of interest in all cases, the holder being left to claim a refund if he wishes. The Local Governments consulted were generally opposed to any change, and no further action was taken.

The Government have exempted the leave allowances of Railway servants when paid in the United Kingdom, placing them on the same footing in this respect as Government officers.

Among other remedial measures a general remission of income-tax for the year 1905-06 was sanctioned in the towns and villages of the Kangra district which were severely injured by the disastrous earthquake which occurred in April 1905.

*Notification No.  
786-S. R., d. 17th  
Feb. 1899.*

5. *Stamps : (a) Indian Stamp Act, 1899.*—The Bill to consolidate and amend the law relating to stamps, which had been pending in the Legislative Council since 1897, was passed on the 27th January 1899, as Act II of 1899. An account of the objects of this legislation is given in paragraph 131 of the summary of Lord Elgin's administration. The passing of the new Act was followed by the issue of revised and consolidated rules.

The Act is in itself applicable to the whole of British India, but by Regulation No. II of 1901, the Arakan Hill District was excluded from its operation. Subsequently in 1903, the Government of India sanctioned the exclusion of the Lushai Hills by notification under the Assam Frontier Tracts Regulation, 1880.

Several amendments have since been shown to be required. The Act imposes a lower rate of duty on equitable than on ordinary mortgages, but its terms have

been interpreted as requiring equitable mortgages when employed to secure the temporary cash credits of commerce to be treated as ordinary mortgages liable to a duty of approximately one-half per cent. The Act was accordingly amended by Act XV of 1904 so as to make the lower rates apply, and in the case of loans secured by the deposit of marketable securities to impose a fixed duty of only eight annas. This amendment however was found to be insufficient as it did not cover the case of a hypothecation of moveable property to be afterwards acquired, and the necessary relief has since been given by notification. The occasion was also taken to effect other minor amendments in connection with mortgages; and also to amend the law relating to the valuation of royalties reserved as rent in mining leases, and to revise the definition of the term "settlement" which had been found to lend itself to evasion.

*Notification No.  
5614-Exc, d. 6th  
Oct 1905.*

*Desp to Secy. of  
State, No. 11, d.  
14th Jan. 1904.*

6. (b) *Fire Insurance Policies*.—In 1903 a number of Fire Insurance Companies and Chambers of Commerce represented that the rates of duty on fire insurance policies were unequal and indefensibly high, and urged their reduction to a uniform all-round rate of one anna per policy. The Government felt that there was considerable force in these complaints and suggested the adoption of a rate of one anna in the rupee on the premium paid. Enquiry showed however that this method of assessment would be unworkable, and revised proposals were referred for the opinion of Local Governments in August 1904. On a consideration of the opinions of the Local Governments and the mercantile community it has now been decided to substitute for the present rates a duty of four annas in respect of every original fire insurance policy when the sum insured is less than Rs. 5,000 and of eight annas in other cases, and, in addition to the usual stamp duty of one anna on receipts, to levy recurring duties of four and eight annas as above on all premium payments, the liability to stamp the policies and receipts being imposed upon the companies which issue them. A draft amending Bill to give effect to this decision, which involves an annual loss of revenue amounting probably to several lakhs of rupees, has now been framed and has been referred to the Secretary of State. The Bill also embodies a recent decision by which private banking firms will be enabled to obtain a refund of unused stamped papers in the manner provided by section 51 of the Act, which at present applies only to companies.

*Letter No. 5368-  
S R, d. 23rd Aug.  
1904.*

*Desp to Secy. of  
State, No 369, d.  
2nd Nov. 1905.*

7. (c) *Penalties*.—Section 40 (1) (b) of the Stamp Act, 1899, empowers the Collector in dealing with documents not duly stamped, to recover the deficiency and in addition levy one of two penalties, namely, a penalty of Rs 5 or of ten times the deficiency, but allows no discretion to impose an intermediate penalty in cases where the first is too lenient and the second too severe. Accordingly in December 1900 the Government by executive order authorized Collectors in such cases to recover only some smaller amount to be specified in the order imposing the higher penalty.

*Letter No. 6235-  
S. R., d. 17th Dec.  
1900.*

8. (d) *Exemptions*.—The exemptions under the old Act were not embodied in the new one but reproduced in full by notification. Various additions, of which the following are among the most important, have since been made. The Government have remitted all duty leviable under the Stamp Act (and also the Court Fees Act) in respect of shares registered in the United Kingdom under the Indian Companies (Branch Registers) Act.\* Written authorities empowering agents to plead in village Courts in the United Provinces have been wholly exempted; agreements respecting the occupancy of land in Berar have

*Notification No.  
785-S. R., d. 17th  
Feb 1899.*

\*Explained in Part I, Chapter IV.

also been exempted; the duty on mortgages of crops, where the loan is repayable in more than three and not more than twelve months, has been reduced by one-half, and by three-fourths in the case of loans repayable in more than twelve but not more than eighteen months; and the Inland Steamer Companies have secured exemption for bills of lading issued by them, as the Railway Companies had done before. The Government have also decided, with a view to clearing up a doubtful legal point, to exempt altogether copies of certificates relating to births, baptisms, marriages and deaths.

Under the Court Fees Act there are few new exemptions of any importance. But the following exempted documents may be mentioned: applications for suspension and remission of revenue in certain cases; copies of village papers required for use in a Court of Justice in several provinces; communications made by proprietors regarding village officers in Madras; and applications for copies in certain cases where the copies are themselves exempt.

9. (e) *Other matters*.—To encourage the sale of stamps by suitable persons and bring the stamps within the reach of the public in outlying places, the Government allow to licensed vendors a commission or discount on the value of stamps sold by them, the rates of discount varying with the class of stamp (judicial or non-judicial) and the denomination and value. There used to be very wide differences in the rates for the same stamps as sold in different provinces. As communications improved and business increased, and the requirements of the law became better known, the vendor's remuneration in many cases became higher than the altered circumstances demanded. The Government accordingly took up the question of assimilating and reducing the rates of discount, and in December 1899 prescribed two scales for uniform adoption in all provinces, one scale to be in force in places where stamps were also sold by Government servants and the other elsewhere. In view of the opposition of a number of Local Governments these rates were only experimentally enforced in the first instance, but the experience of several years has shown them to be generally suitable and it is now intended to maintain them.

*Resolution No. 5583-S. R., d. 8th Dec. 1899.*

*Desp. to Secy. of State, No. 282, d. 10th Aug. 1899.*

*Desp. to Secy. of State, No. 387, d. 20th Oct. 1904.*

*Resolution No. 3715-Exc., d. 30th June 1905.*

To reduce the difficulty of storage in the central depôts and loss by deterioration, it was decided in 1899 to maintain a stock of stamps equal to one year's instead of two years' requirements. But owing to the difficulty of modifying existing contracts in England the change could only be introduced gradually and could not be extended to all classes of stamps. Subsequently in 1905 the Central Stamp Depôt at Calcutta was relieved by the establishment of subsidiary depôts at Karachi and Rangoon, this measure being based on the recommendations of the Printing and Stationery Committee of 1903 whose report is analyzed in Chapter X. The consequential changes in the rules for the supply of stamps, with other minor amendments, were published in June 1905.

*Desp. to Secy. of State, No. 204, d. 20th June 1901.*

On the accession of His Majesty King Edward VII, the Sovereign's portrait on the stamps was changed. At the same time "unappropriated" foreign bill and share transfer stamps were introduced which can be overprinted to represent any one of twenty-four values in lieu of separate stamps for each value. The issue of some of the higher denominations of stamps for which there was little or no demand has since been discontinued.

The most important change of the period is the introduction of unified stamps for postal and revenue purposes. This proposal had been discussed on

many previous occasions, but was rejected mainly on the ground that it would involve the discontinuance of the practice of pen-marking letters, a device adopted in India with a view to the prevention of petty thefts of postage stamps. The use of a unified stamp is also open to the objection that it prevents an exact discrimination between postal receipts, representing payment for services rendered, and stamp revenue, which is a form of taxation. On the other hand it is recognised, and this consideration has prevailed, that the concession will be a great convenience to the public generally, and will undoubtedly lead to a growth of the revenue derived from the stamp duty on receipts, though the extent of that growth can no longer be measured. The proposal was referred to the Secretary of State in April 1905 and came into force on the 1st October of the same year. From that date the sale of the one-anna revenue stamp ceased, and the one-anna and half-anna postage stamps now in use may be utilized either for postal purposes or for the payment of duty in any case where the Stamp Act requires the application of a one-anna adhesive stamp. New designs for the unified stamps have recently been approved.

*Commerce Department  
Desp. to Secy.  
of State, No 11, d.  
13th April 1905  
(Part III, page 463).*



## CHAPTER IX.—POST OFFICE.

1. *Increase of transactions.*—The development of the Indian Postal Department has been well maintained in the last six years. Nearly 679 millions of postal articles, exclusive of money orders, were dealt with in 1904-05 as against 477 millions in 1898-99. The number of offices increased from 10,505 to 16,033; the value of money orders issued from Rs. 26 crores to Rs. 34 crores; the number of savings bank depositors from 756,000 to 1,059,000; the total sum represented by out-standing postal insurance policies from Rs. 60 to Rs. 149 lakhs; the aggregate revenue\* from Rs. 187 lakhs to Rs. 236 lakhs; and the aggregate expenditure\* from Rs. 150 lakhs to Rs. 191 lakhs. The variety of work which falls to postal officers also deserves a word of notice. The department established a field post office of 168 officers and subordinates in connection with the military operations in China. Another field post office was formed in Somaliland and another in connection with the Waziri Blockade, and special postal arrangements were made for the Tibet Mission involving the employment of over two thousand men inclusive of runners and followers. Similar calls were made on the department on the occasion of the Coronation Durbar and for various camps of exercise and famine relief works, and postal officers have been lent for actual famine work, and also took an active part in the last census.

2. *Foreign postal arrangements.*—The enlarged scope of the department's operations is also well illustrated in its relations with foreign countries and Native States. The foreign parcels post has been extended to the United States, North-East and North-West Rhodesia, Uganda, the Somaliland Protectorate and Portuguese East Africa, and to German and French offices in China and numerous offices in Turkey and many other places. A single parcel post agreement with the Commonwealth of Australia has been substituted for the separate agreements with the six colonies which constitute it. Parcel insurance has been extended to the United States, the Commonwealth of Australia, Gibraltar, the British East Africa Protectorate, Zanzibar and the Danish West Indies. A direct exchange of postal parcels has been established with Gibraltar, New Zealand, Western Australia, Natal, Cape Colony, the Straits Settlements, Mauritius, Siam and elsewhere, and of money orders with Natal, the Transvaal, Trinidad, Sarawak, Fiji, the British Central Africa and Somaliland Protectorates, and the Federated Malay States. Ceylon, Hongkong, the Straits Settlements, Malta, Newfoundland, Jamaica, Bermuda, the Barbados, Japan and numerous other places have been included in the scheme for the insurance of foreign registered letters. Insurance to destination has been made available in New Zealand, Cyprus, Gibraltar, Malta, the Gold Coast Colony, Mauritius, the Soudan, Madagascar, the Dutch East Indies, Japan and elsewhere. The money order system has been extended to British Bechuanaland, Russia, Greece, Mexico, Peru, Cuba, Sarawak and other places, and the value-payable system to the British East Africa Protectorate. The Imperial Penny Postage scheme, to which India has adhered from the first, has been adopted by the Cape Colony, Jamaica, Mauritius, British North Borneo, Labuan, New Zealand, the Orange River Colony, the Transvaal, the Somaliland Protectorate, and by British post offices in China under the Hong Kong Postal

\* The figures here given for postal revenue and expenditure are the departmental figures for 1904-05 and differ from the Accounts figures which include certain receipts and charges not taken into account for departmental or statistical purposes. The figures given in Part I, Chapter VI, are the Budget figures for 1905-06.

Administration. The postal systems of the Native States of Jhallawar and Kotah, Alwar, Dhar, Sirmoor, Banganapalle and Bikanir have been amalgamated with the Imperial system. Revised postal conventions have also been concluded with Patiala, Jind and Nabha.

It may be added that mail communication has been established across the Baluchistan-Seistan frontier between the Indian and Persian postal systems, and also between the Chinese province of Yunnan and Burma. On the other hand the Somali Coast Protectorate, since its transfer to the control of the British Foreign Office, has ceased to form part of the Indian postal system, though India has agreed to meet half the cost of the mail service to and from Aden, and to carry the Somaliland mail beyond Aden free of charge.

*Desp. to Secy. of State, No. 26, d. 24th Jan. 1901.*

3. *Amendment of Act.*—The passing of the Post Office Act (VI of 1898) was followed by a notification which brought together all postal rules having the force of law. The Act was amended by Act II of 1903, with a view to making the foreign instead of the inland rates of postage applicable to private correspondence between places in Turkish Arabia and Persia where Indian Post Offices had been established, or between such places and British India.

*Notification No. 1429-C.—S R., d. 30th March 1899.*

4. *Administration.*—A proposal to amalgamate the Indian Postal and Telegraph Departments is now under consideration and an officer has been deputed to Europe to study the systems of combined working in force in the United Kingdom, Germany, France and Switzerland. Perhaps the most important completed administrative reform of the period is the decentralization of the accounts work of the postal department. Until 1899 this had been concentrated in Calcutta, but the development of money order and savings bank business made it essential to divide the control and bring the audit officers nearer to the places from which accounts were received; and in January 1900 the central office was relieved by the establishment of circle audit offices at Calcutta, Nagpur and Delhi in charge of Deputy Comptrollers. The policy of raising the pay of the subordinates as work and money responsibility increase has been steadily pursued. In this connection may be noticed the decision to classify the service of postmen as superior from its commencement instead of, as previously, only after five years' approved service. The higher ranks have been strengthened and their pay and prospects improved by a scheme costing Rs. 1,53,000 per annum which increased the number of Postal Superintendents by 30, created a new grade on Rs. 500—600, and granted a number of personal allowances of Rs. 100 per mensem in place of existing allowances of Rs. 50 per mensem. More recently the Director-General's staff has been revised at a cost of Rs. 24,000 a year. The delivery arrangements of many of the largest towns have been completely revised, and in Calcutta, Bombay and Simla the continuous delivery system has been introduced. Other improvements or new facilities are the use of thumb impressions for the payment of postal pensioners and of illiterate money order payees; the authorization of private postcards of the maximum dimensions allowed by the Postal Union; the subsequent authorization of written communications on the address-side as well as on the back of such cards; the sale of stamps in the form of books interleaved with oiled paper to prevent the adhesion of the stamps to one another; the grant of permission to use embossed or impressed stamps cut out from envelopes, post cards, &c., as ordinary postage stamps; the introduction of unified postal and revenue stamps of the denominations of one and one-half anna (already mentioned in Part II, Chapter VIII);

*Desp. to Secy of State, No. 104, d. 16th March 1905.*

*Desp. to Secy of State, No. 191, d. 8th June 1899.*

*Desp. to Secy. of State, No. 237, d. 29th June 1905.*

*Desp. to Secy. of State, No. 370, d. 10th Dec. 1903.*

*Desp. to Secy. of State, No. 185, d. 25th May 1905.*

the simplification of the procedure for payment of customs duty on articles imported by letter post (mentioned in Part II, Chapter IV); and the introduction of an arrangement by which the sender of a postal parcel not exceeding 11 lbs. in weight between the United Kingdom and India may prepay customs duty and other charges and thus secure its delivery free of charge to the addressee.

*Commerce Department  
letter No. 4341-P. O., d  
24th Aug. 1905.*

India has also become a party to a scheme for the issue and payment of British postal orders throughout the Empire. It may be added here that in 1900-01 the colours of the  $\frac{1}{2}$  anna, 1 anna and  $2\frac{1}{2}$  anna stamps were altered to green, crimson and blue respectively, these being the three colours accepted by the Postal Union for stamps representing the three standard postage rates, of which the above are the Indian equivalents. The appropriation of these colours for the three standard values necessitated a change in the  $\frac{1}{2}$  anna and 2 anna stamps which was made at the same time.

There has been a considerable acceleration in the carriage of the foreign and other mails between various parts of the country. Improved railway communication and timing have shortened the time occupied in transit between Calcutta and Madras by 48 hours. A weekly special train is now run between Bombay and Madras, leaving the former place shortly after the arrival of the English mail and performing the journey in  $24\frac{3}{4}$  hours. Similarly the special train which serves the Punjab is now run for twelve instead of for only seven months in the year, and the residents of the principal stations of that province thus receive their English mail about twelve hours earlier than they otherwise would. The mail services between India and Burma, Bombay and Karachi, and Tuticorin and Colombo have also been accelerated under a new contract with the British India Steam Navigation Company.

5. *Alterations in rates and other concessions.*—A number of important concessions have been made during the period under review. The limit of weight for the half-anna rate of inland letter postage has been raised from half a tola to three-quarters of a tola. A letter weighing about three-tenths of an ounce can thus be sent from one end of India to another for the equivalent of a half-penny. This concession, which was announced at the Budget debate of March 1905, is expected to cost Rs. 7 lakhs. The special privileges enjoyed by certain portions of the native army have been assimilated and extended in a general order allowing the right of free postage for the private correspondence of all ranks when on field or foreign service. The letter rate of postage to Australia (which has not joined the Imperial Penny Postage scheme) has been reduced from  $2\frac{1}{2}$  annas to one anna in consideration of the reduction of the Australian rate for letters sent to India from  $2\frac{1}{2}d.$  to  $2d.$ , the latter being the usual inland rate in Australia.

*Correspondence.*

The limit of weight up to which newspapers can be carried for a postage fee of one-quarter anna has been raised from 4 tolas to 6 tolas at an estimated loss of Rs. £5,000; and the maximum limit of weight for pattern packets has been raised from 40 to 80 tolas (2 lbs.).

*Desp to Secy. of  
State, No 113, d.  
28th March 1901.*

In 1901 the Government reduced the scale of postage for inland parcels not exceeding 11 lbs. in weight by about one-half. For heavier parcels up to 50 lbs. (the maximum weight carried) the rates remain unchanged. The limit of 11 lbs. for postal parcels is generally recognized in the practice of other postal administrations, and their rates are much lighter than those hitherto in force in India. The absence of efficient carrying agencies off the lines of railway

*Parcels.*

makes it necessary for the present that the Post Office should continue to carry heavier parcels as well, but a reduction of rates in their case is not called for and would involve undesirable competition with the railway companies. At the same time the registration fee for inland parcels was reduced to a uniform rate of 2 annas a parcel. The immediate loss of revenue anticipated from these two concessions was Rs. 5 lakhs a year, which is rapidly being made good by the remarkable increase of traffic to which they have led. In sanctioning them the Government made prepayment compulsory in all cases, and were thus enabled to abolish the cumbrous machinery previously required for checking collections. At the same time they considered a proposal that India should join in adopting a cheap and uniform scale of postage for parcels exchanged between Great Britain and other parts of the Empire, but the further loss of revenue involved (Rs. 1 lakh a year), and the unsatisfactory nature of the proposed apportionment of receipts between Great Britain and India, as well as the fact that the suggested concession would mainly benefit the well-to-do classes, led the Government to hold aloof. The second of these objections was afterwards met, and the Government declared their adherence to the scheme, which accordingly came into force in January 1904. The result is a reduction of the rates for parcels sent to other parts of the Empire by about two-fifths.

*Desp. to Secy. of  
State, No. 175, d.  
30th May 1901.*

*Desp. to Secy. of  
State, No. 232, d.  
30th July 1903.*

One result of the introduction of the gold standard was the use of the parcel post for the transmission of gold. In this way in a single month (August 1900) nearly £500,000 worth of specie was sent from India to the United Kingdom, and in another month (June 1900) £216,000 were similarly sent from the United Kingdom to India; while in India itself the same practice began to grow up, one bank for example having taken 14,000 sovereigns to remit to Lahore. The banks and the shipping companies protested against this competition with their legitimate trade, and the practice was recognized as objectionable from the postal point of view as it imposed great responsibility on postal officials and could not fail to constitute a serious temptation. For these reasons it was decided that no parcel containing current gold coins of a value exceeding 20 sovereigns should be sent by means of the inland parcel post; and in communication with the British Post Office, which had already taken the matter under consideration, the Government further prohibited the transmission by the foreign parcel post of any parcel containing coin or bullion exceeding £5 in value except coin clearly intended for purposes of ornament.

*Letter No. 484-  
S.E., d. 28th Jan.  
1901.*

*Desp. to Secy. of  
State, No. 180, d.  
6th June 1901.*

#### *Money orders.*

In 1902 the commission on inland money orders for sums not exceeding Rs. 5 was reduced from two annas to one anna, the immediate surrender of revenue from this concession being estimated at Rs. 2½ lakhs. The reduction was made chiefly in the interests of the poorer classes, many of whom earn their livelihood at a distance from their homes and are constantly making small remittances. This measure made it necessary to revise the scale of fees throughout to prevent the splitting up of remittances. But the first concession resulted in so rapid an increase of business that the original estimate of revenue surrendered was expected to cover the total loss from both changes.

*Desp. to Secy. of  
State, No. 31, d.  
6th Feb. 1902.*

With the attainment of fixity of exchange it became desirable to adopt a fixed rate of 1s. 4d. for the calculation of payments for sterling money orders. To protect themselves against the abuse of this concession for purposes of trade remittance, the Government in 1900 slightly raised the rates of commission. Subsequently in 1903 the graduation of the scale was improved and the excessive charge for small remittances reduced. In March 1904 the Government

of India accepted a suggestion to raise the maximum amount of single money orders on the United Kingdom from £10 to £40, and this has since been extended to other countries and colonies, including those with which an exchange expressed in rupee currency is maintained.

*Commerce Department Notification No 2648 C., d. 9th June 1905.*

The general reduction of insurance fees for both the inland and the foreign posts by 50 per cent. at a cost of about Rs. 1½ lakhs was announced at the Budget debate of March 1905 and came into effect on the 1st July 1905.

*Insurance.*

An arrangement has been effected by which the sender of an uninsured parcel between the United Kingdom and India may receive compensation not exceeding £1 in the event of the loss of the parcel or its contents. Similarly it has been recently decided to allow the payment of compensation not exceeding Rs. 25 in respect of any inland registered postal article which may be lost or damaged while in the custody of the Post Office.

*Compensation for loss of uninsured postal articles.*

*Desp from Secy. of State, No. 16, d. 19th Jan. 1899.*

6. *Apportionment of charges.*—In 1898 the question of the apportionment of the charges on account of the transmission of mails between England and India, which had been long in dispute, was referred to the arbitration of the Right Hon'ble the Earl of Morley. The arbitrator's award, which was communicated in 1899, though it did not follow precisely the scheme put forward by either party, was substantially in favour of the Indian Post Office, especially as regards the decision to revert to the practice of pooling the postage collected in both countries.

*Desp to Secy of State, No. 52, d. 18th Feb. 1904.*

The details were not finally settled till 1904 when the annual contribution payable by India was fixed at £59,330, which was increased in 1905 to £61,226.

*Desp. to Secy. of State, No. 328, d. 29th Oct. 1903 (Part III, page 465).*

7. *Eastern Mail Service.*—The contract with the Peninsular and Oriental Steam Navigation Company for the conduct of the mail service between England and India and the Far East and Australia expired on the 31st January 1905. The revision of the mail service arrangements was considered in 1903 by an Inter-departmental Committee in England on which India was represented. The views of the Government of India as communicated in various telegrams were finally summed up in a despatch to the Secretary of State. The Government pointed out that by the public generally and the commercial community in particular the existing mail service was stigmatized as totally inadequate; and that any arrangement which did not provide for a clear acceleration of at least 24 hours on both the outward and the homeward journeys would provoke a storm of disapproval. The Government themselves considered that this was the minimum which should be demanded, and very strongly urged that if no further advantages could be obtained the contract should not be again renewed for a prolonged period; and in the event of the refusal of the proposed minimum acceleration they recommended that the contract should be determined in 1905 and provisional arrangements made with other companies till 1908, by which time preparations could be made for a regular service on reasonable terms. Eventually it was settled that the contract with the Peninsular and Oriental Company should be renewed for three years, the contract time both ways being reduced by 24 hours subject to an increased monsoon allowance of 36 hours, and the subsidy increased by £10,000. India also obtained a decision in her favour on the question of apportioning the additional subsidy. The British Post Office had considered that India, having demanded the accelerated speed, should be required to make up to the other participants the amounts by which the subsidy might have been reduced had no such demand been put forward. But it was finally settled that the apportionment should be based on the principles laid down in Lord Morley's award.

In considering the terms on which a new seven or ten years' contract should be arranged, to come into effect from 1908, the Government of India have suggested that, in calling for tenders, enquiries should be made as to the subsidy required for a further acceleration of 24 hours from 1911 onwards. The question of establishing a link service between Karachi and Aden has also been discussed, but it appears probable that the cost will be prohibitive.

*Commerce Department Desp. to Secy. of State, No. 51, d. 7th Sep. 1905.*  
*Commerce Department Desp. to Secy. of State, No. 8, d. 23rd March 1905.*

8. *Minor mail contracts.*—The Postal Department is interested in numerous other contracts for the carriage of mails by water and usually conducts the preliminary negotiations. But the considerations involved are in some cases political or administrative rather than postal. The Andaman Mail Service, the services in Assam and Bengal *viâ* the Brahmaputra River, and between various places in Burma conducted by the Irawaddy Flotilla Company, the service on the rivers of the Akyab district, the Aden Perim Service and the Basrah Baghdad Service conducted by the Euphrates and Tigris Steam Navigation Company have all been the subject of new or revised contracts during the past seven years, but the changes made are not of sufficient importance for detailed notice. In 1899 and 1901 arrangements were made for more frequent calls at Muscat and Bahrein. In the latter year the Government with the assistance of the Welby Commission were enabled to discontinue their contribution of £1,000 a year to the Euphrates and Tigris Steam Navigation Company for the postal service on the Karun River, in which Indian interests were not really involved. For similar reasons the Government declined in 1903 to contribute towards an improved service with East Africa.

*For Dept. Desp. to Secy. of State, No. 228, d. 21st Dec. 1899.*

9. *Persian Gulf Mail Service*—A new contract which is of importance from the political point of view was concluded with the British India Steam Navigation Company with effect from the 1st May 1904, and continues in force till the termination of the next Eastern Mail contract, subject to a maximum of ten years and nine months and a minimum of seven years. The principal feature of this contract is the improvement of communications with the Persian Gulf by the establishment of a weekly mail service between Karachi and Basrah, with a weekly call at Koweit, at an average speed of 13 knots an hour, in addition to the irregular 8 knot cargo service by which the mails were previously carried. To secure this advantage the Government have increased the subsidy by Rs. 3 lakhs a year. Reference has already been made to the same Company's accelerated service between different ports of India.

*Letter No. 7269. S.R., d. 30th Nov. 1903.*

10. *Colonial legislation against "coloured labour"*.—By section 16 (1) of the Australian Post and Telegraph Act of 1901, it was enacted that no contract or arrangement for the carriage of mails should be entered into on behalf of the Commonwealth unless it contained a condition for the exclusive employment of white labour. At the instance of the Bengal and Bombay Chambers of Commerce the Government of India requested the Secretary of State to move His Majesty's Government to take any steps which might be practicable and expedient to obtain an alteration in this section of the law. It appeared that the Secretary of State had already addressed to the Colonial Office a strong protest against the exclusion of a section of His Majesty's subjects, on the mere ground of colour, from an employment for which they are well suited and on which they have been engaged for many generations. The correspondence, which was published, led to no immediate result.

*Desp. to Secy. of State, No. 19, d. 30th Jan. 1902.*



## CHAPTER X.—PRINTING, STATIONERY AND STORES.

1. *Printing and Stationery*.—Much attention has been paid in the last few years to the improved management of the *quasi-commercial* departments of Printing and Stationery\*. Their importance is indicated by the heavy expenditure incurred on them, the various printing presses maintained by the Central and Local Governments costing Rs. 37½ lakhs a year, and the stationery purchased for public purposes Rs. 33½ lakhs. As two-thirds of this paper is used by the presses there is a close connection between the two departments, which had not previously been recognized by the system under which they were administered. Each press was separately controlled by its own Local Government, without any uniform supervision and inspection, and without any provision for the audit of expenditure except a small clerical establishment dealing only with piece work charges. The purchase and distribution of stationery was managed independently by separate officers in Madras, Bombay and Calcutta. The Superintendent of Stationery at the last named place acted for the whole of India except Madras and Bombay, and was thus practically an Imperial officer, but was nevertheless subordinate to the Board of Revenue and the Government of Bengal.

*Desp. to Secy. of State, No. 179, d. 31st May 1900*

*Letter No 3687-S R., d. 10th July 1901.*

*Resolution No 5672-S. R., d. 2nd Nov. 1901.*

*Letter No 5843-S. R., d. 1st Nov. 1902.*

The first improvement, suggested by irregularities in the Rangoon and Simla presses, was the appointment in 1901 of an Examiner of Press Accounts assisted by a suitable staff. In July of the same year a small committee was appointed to report upon the most economical and efficient method of obtaining paper required for the public service, and in the following November another committee was convened to investigate the cost of Government printing as compared with that done by private presses, and also to report upon the possibility of simplifying and improving the system of press accounts with a view to exhibiting the real profit or loss on their working. The two committees (assisted by commercial experts) collected much useful information and submitted a number of valuable suggestions. But these and other enquiries clearly indicated the necessity of more radical reforms in organisation and control than had yet been formally considered; and in 1903 a third committee was convened to consider the question of uniting the supervision of printing throughout India and the administration of the Calcutta Stationery Department under a single officer with higher technical qualifications and practical commercial experience, and working under the direct control of the Government of India.

The committee's report constituted a strong justification of this proposal. As regards printing it was shown that the existing system did not provide for the adequate handling of questions of improved machinery, printing contracts, labour organization and the like, and made no provision at all for periodical inspection except for purposes of audit. Again, the staff of the Stationery Department had no technical qualifications; the superior officers were overwhelmed with details; accommodation was utterly inadequate; and the office was in disorder. The management of the paper supply had been exceedingly unsatisfactory, the Indian Mills having been allowed to combine against the Government with such advantage to themselves that when the ring was finally broken up a saving of nearly Rs. 4 lakhs was at once effected. Finally it was found that indents were inadequately checked, and compliance with them unduly delayed.

\* Including Stamps.



The outcome of this report was the appointment in July 1904 of a specially qualified Controller of Printing, Stationery and Stamps, to exercise inspecting and advisory functions in respect of all the Government presses, and to undertake the executive charge of the Calcutta Stationery and Stamps Department. This officer works in direct subordination to the new Department of Commerce and Industry. In respect of routine work he is assisted by a Deputy and an Assistant Controller. He has also been relieved of the task of scrutinizing the thousands of petty indents which can be more effectively checked by the Heads of the indenting departments.

*Desp. to Secy. of State, No. 251, d. 13th Aug. 1903.*

Reference may here be made to the experiments which the Government of India have instituted with a view to the possible substitution of type-setting machinery for composition by hand labour. After prolonged trial it now appears that a machine well suited to the special requirements of Government printing has been found in the "Monotype," and it is probable that these machines will in future be extensively employed. A minor reform under the heading stationery was the standardization of the sizes and qualities of demi-official paper and envelopes in 1905.

*Desp. to Secy. of State, No. 378, d. 20th Oct. 1904.*

*Commerce Department letter No. 313, d. 6th March 1905.*

2. *Stores.*—The rules for the purchase of articles of European manufacture required for the Government service prescribe that such stores shall ordinarily be obtained by indenting on the Secretary of State: orders cannot be sent direct to manufacturers in Europe or given to their Indian agents. An exhaustive enquiry into the practical working of this system showed that it involved very serious delay, especially in the Public Works Department. The matter was represented to the Secretary of State in 1903 and remedies were suggested. Subsequently the Government requested that the Director-General of Stores at the India Office might be deputed to India to confer on the subject with the principal indenting officers. The Secretary of State, while agreeing to the last suggestion, explained that much of the delay of which complaint was made was due to labour troubles and the South African war. The later developments mainly concern the Public Works and Military Departments, and it will be enough to add that the Secretary of State's reply and the Director-General's visit have resulted in a number of practical suggestions and a better mutual understanding of the difficulties on both sides. Among less important changes in the rules generally applicable in the case of European stores may be mentioned the improvement of the form of indent, the simplification of the annual returns of expenditure, the permission to purchase typewriters locally, and the raising of the limit of value up to which other articles may be purchased in the open market from Rs. 10 to Rs. 50. It may also be added that, in response to the representations of certain Chambers of Commerce, the considerations which guide the Government in determining whether to purchase goods in Europe or to give a preference to similar articles manufactured in India were again defined for general information in July 1904. The question has now been reopened on a representation from the Engineering and Iron Trades Association, and it is possible that the existing orders may be revised in a manner better calculated to encourage the industrial development of the country.

*P. W. Dept. Desp. to Secy. of State, No. 7, d. 12th March 1903.*

*Letter No. 4207. S. R. d. 4th July 1904 (Part III, page 469).*

## CHAPTER XI.—MISCELLANEOUS.

1. *Revision of Civil Service Regulations.*—In 1902 the Third Edition of the Civil Service Regulations was revised.

2. *Exchange Compensation Allowance.*—Paragraph 19 of the summary of Lord Elgin's administration explains the complications and controversies to which the grant of exchange compensation gave rise. The main difficulties which attended the disposal of claims to this allowance were removed by orders issued in 1899 which substituted definite rules of personal eligibility for the vague and unworkable test of domicile. But it was felt that there would, if it were practicable, be much advantage in the entire abolition of a somewhat invidious distinction, the necessity for which has been greatly reduced by the present fixity of exchange. The question was fully discussed in June 1904, but it was decided that the immediate abolition of the allowance was impracticable. The Government proposed to proceed gradually, fixing the rates of pay of all new appointments at amounts which would not require to be supplemented by compensation for exchange, and reorganizing existing services one by one. For the homogeneous services recruited mainly from England the intention was eventually to substitute consolidated salaries representing approximately the existing scale of emoluments. The case of the composite services presented greater difficulty, and it was recognized that it could not be settled till opportunity arose for their division into Imperial and Provincial Branches. The Secretary of State, however, took exception to these proposals on the ground that they could not be carried into effect without raising the emoluments of classes at present ineligible, and thereby imposing an additional burden on the public revenues. But he agreed that exchange compensation allowance might be withheld whenever new appointments were created or the pay of existing appointments was altered. This principle cannot conveniently be applied in the case of isolated additions to existing services, but several opportunities have already arisen for its application on a larger scale. Thus the allowance is to be withheld from the newly-constituted Imperial Customs Service, and from future entrants into the Madras Survey Department in which the scale of pay has recently been revised. The conditions of service of the superior officers in the Indian Police will shortly be materially improved as a result of the recommendations of the Police Commission, and the Government of India have decided to recommend the discontinuance of the allowance in respect of all officers recruited in and after the year 1906. The pay of Superintending and Chief Engineers of the Public Works Department has recently been raised, and it is proposed to declare that future entrants into the Department shall, on attaining administrative rank, become ineligible for the allowance; and it is intended to enforce a similar ruling in the probable event of an enhancement of salaries in the administrative grades of the Forest Department. In the same way the rules embodying the conditions of service applicable to the expanded Agricultural Department, which have recently been submitted for the approval of the Secretary of State, provide that officers recruited under those rules shall be ineligible. In the case of clerical and ministerial establishments the grant of the allowance has for some time been restricted to a few exceptional cases, and it has now been decided to abolish these exceptions altogether except as regards present incumbents. Future entrants into such establishments will thus be ineligible in all cases.

*Resolutions No. 2418-Ex., d. 26th May 1899, and No. 3457-Ex., d. 31st July 1899.*

*Desp. to Secy. of State, No. 189, d. 2nd June 1904 (Part III, page 471).*

*Desp. from Secy. of State, No. 154, d. 4th November 1904.*

*Resolution No. 4584-Ex., d. 15th August 1905.*

3. *Pensions*.—Indian pensions are ordinarily based on half the average emoluments drawn by the retiring officer in the concluding years of his service. Under the pension rules of 1831 the period taken for calculating this average was the last five years of the officer's service. This practice differs from the English rules and the Indian furlough allowance rules which take the last three years, and it also tells somewhat hardly upon many ministerial officers holding appointments on progressive pay. In response to memorials submitted by 1,628 officers the Government addressed the Secretary of State upon the subject, and secured his sanction to the reduction of the period for calculating average emoluments to three years.

*Desps. to Secy. of State, No. 231, d. 7th Aug. 1902 (Part III, page 475).*

4. *Acting allowances in privilege leave vacancies*.—The Government have also pressed the Secretary of State to abolish Art. 99 of the Civil Service Regulations, which prohibits the grant of acting allowances during the first thirty days of a privilege leave vacancy except in the case of officers whose appointment to officiate involves their transfer from another station, in which case the acting allowance is reduced during the first thirty days by one-fourth. The Secretary of State agreed to the grant of the full allowance to officers transferred and also to officers on whom additional work or responsibility is imposed, but demurs to the abrogation of the rule in other cases. The question is still under consideration, the Government of India having represented that the proposed distinction would be unworkable in the case of the ministerial and other subordinate services, and that the refusal of the full allowance, which was originally ordered avowedly from motives of economy, is neither logical nor expedient.

*Desps. to Secy. of State, No. 175, d. 26th May 1904, and No. 362, d. 2nd Nov. 1905.*

5. *Compassionate gratuities*.—It is a general rule of the public service in India that officers of Government are responsible for making suitable provision for their families, and must not look to the Government to perform this duty in the event of their death. Cases of special and unmerited hardship have arisen from time to time in which the Government would have been glad to sanction some departure from this principle, but were precluded by standing rules and instructions from making any favourable recommendation to the Secretary of State. In 1900 and 1901 they brought two such cases to his notice, and requested his authority for the distribution of not more than Rs. 22,500 per annum in compassionate allowances to the families of deceased officers. To justify a donation the working head and support of the family to be relieved must be reported to have been a meritorious public servant, and the case will be regarded as strengthened if it can be shown that the officer's life has been shortened by the faithful discharge of his duties; his salary must not have exceeded Rs. 750 per mensem; and the donation will take the form of a gratuity limited to Rs. 5,000 in each case, or in exceptional cases an education allowance for the officer's children. These proposals were eventually sanctioned in November 1901.

*Desps. to Secy. of State, No. 350, d. 18th Oct. 1900, and No. 312, d. 3rd Oct. 1901.*

6. *Uncovenanted Service Family Pension Funds*.—The Government while refusing to grant pensions to the widows and orphans of their deceased officers have liberally subsidized the voluntary provident societies (the Bengal and Bombay Uncovenanted Service Family Pension Funds), which were founded many years ago in days when insurance companies had not yet established a firm footing and reputation in this country. The subsidy took the form of the grant of a privileged rate of interest—6 per cent.—on the subscriptions paid to the funds.

*eg, Desp. to Secy of State, No. 254, d. 20th July 1899 (Part III, page 477).*

*Desp. from Secy. of State, No. 9, d. 25th Oct. 1900.*

*Resolution No. 271-P., d. 14th Jan. 1904 (Part III, page 482).*

In 1896 the Secretary of State suggested that this rate of interest might fairly be reduced to 4 per cent. A long correspondence ensued in which the Government of India strongly pressed for the maintenance of the privileged rate in respect of existing subscribers and annuitants, and for the grant of a more substantial concession to future entrants than that involved in a four per cent. rate. Ultimately the first contention was allowed, and the reduced rate applies only to subscribers who had not applied for admission prior to the date on which the revised orders were received. But the discrimination between new and old subscribers at once split up each fund into two distinct bodies. In the case of Bombay the difficulty has been to some extent remedied by the formation of what are practically two funds under the same management. But the older Calcutta subscribers refused to accept any responsibility for those to whom the new conditions applied; and it thus became necessary to constitute an entirely new fund. This fund, for the membership of which it may be said broadly that all except Bombay officers have been made eligible, is called the Bengal and Madras Service Family Pension Fund. The State assistance granted is twofold: in the first place the Government guarantee for the present a 4 per cent. rate of interest, and in the second they propose to increase by 25 per cent. the pensionary allowances which subscriptions yielding this return will provide. This latter figure, however, and also the rates of subscription are provisional, as certain actuarial calculations remain to be worked out, and both the rate of interest and the pensionary addition ultimately determined will be liable to modification in future at the discretion of the Secretary of State. In order to give the new fund a fair start the Government have temporarily undertaken its management and also advanced the money required for incidental expenses, but it will shortly be made self-governing like the older societies.

*Resolutions—No. 384-P., d. 13th Aug. 1899. No. 4837-P., d. 20th Oct. 1899. No. 4282-P., d. 13th Aug. 1901. No. 822-P., d. 10th Feb. 1902. No. 3284-P., d. 5th June 1903.*

*Letter No. 4921-P., d. 8th Sept. 1905 (Part III, page 484).*

7. *Service Provident Funds.*—The Government have also established compulsory provident funds for the superior officers of the Police, Financial, Opium, Northern India Salt Revenue, and Civil Veterinary Departments. As explained in paragraphs 183—4 of the summary of Lord Elgin's administration the main feature of these funds is a compulsory subscription of not less than 5 per cent. of salary (or  $2\frac{1}{2}$  per cent. in the case of Army Veterinary Officers). On these subscriptions the Government allow compound interest at 4 per cent. per annum, and the amount which thus accumulates at the credit of each officer can only be finally withdrawn on his quitting the service. The question of expanding the scope of these funds and constituting a single amalgamated fund for the services throughout India is now under consideration, and a scheme has been recently submitted for the approval of Local Governments which contemplates the gradual closure of the existing separate funds and the substitution of a general fund open to all civil officers native or European in permanent superior pensionable service, except officers who belong to service funds distinct from those mentioned above such as those of the Indian Civil Service and the Army. In the case of Europeans and Eurasians drawing Rs. 100 a month or more who enter the service of the Government after the formation of the general fund it is proposed that subscription should be compulsory, and in all other cases optional. The suggested maximum and minimum limits of subscription are  $12\frac{1}{2}$  and  $6\frac{1}{4}$  per cent. In other respects the rules will probably follow those of the existing funds, with such modifications as may be required to adapt them to the more extended range of conditions to which they will apply.

8. *Examination for Enrolled List.*—In April 1899 the Government of India issued revised rules for the admission and examination of statutory natives competing for appointments in the Enrolled List. *Resolution No. 1524-Gl., d. 10th April 1899.*

9. *Curtailment of Reports.*—The question of reducing the length of official reports and of the attached statistics belongs generally to the Home Department. The reports with which the Finance Department dealt were minutely examined in 1900 and 1901, and separate orders were issued to Local Governments about each. Under these orders the provincial reports on the working of the Cotton Duties Act were abolished, and Local Governments were directed to discontinue the submission of the following reports to the Government of India, and were thus free to reduce their length as might seem proper:—

- (1) Reports on Light Houses (prepared in four provinces).
- (2) Reports on Shipping Offices (prepared in two provinces).
- (3) Reports of the Calcutta Port Officer, and of the Calcutta Port Health Officer.

Several separate reports submitted from Coorg, Ajmer-Merwara, Port Blair and Bangalore were also amalgamated in the corresponding General Administration Reports, and the annual reports on Stamps, Income Tax and Stationery were made triennial in all provinces. Subsequently in 1905 the separate report on Postal Insurance Fund was also discontinued.

In respect of the remaining reports (which constitute the great majority) the orders explained the points in which the information supplied was considered to be unimportant or redundant; prescribed in most cases a maximum limit for both the narrative and the number of appendices; prohibited generally the preparation of reviews by intermediate authorities, and also the submission of statistical maps and diagrams; and discouraged the practice of supplementing Imperial returns by a constantly increasing mass of local statements, and also the inclusion in the narrative of tabular statements containing information already available in the appendices. The extent of the reductions effected can be best appreciated from a few specific examples. Comparing the reports of the period preceding the issue of these orders with those most recently received, it appears that the Madras Salt Report (letterpress and appendices) has been reduced from 109 to 69 pages of print, the Bengal Opium Report from 140 to 35 pages, and the United Provinces Excise Report from 135 to 40 pages. The aggregate number of pages occupied by the narrative portion of all the triennial Income Tax Reports is only 65 as compared with 178 pages formerly contained in the ordinary annual reports, and in the case of the Port Trusts, whose reports and their enclosures formerly ran to extraordinary length, there has been a reduction of 361 pages, or more than half.

It might be supposed that such drastic curtailment would reduce the value of these reports as an administrative record, and an officer was placed on special duty in 1903 to ascertain whether this had been the case. His opinion, formed after exhaustive examination of both earlier and recent reports, and based on special personal knowledge of most of the administrative matters dealt with, was that the reports were unquestionably much improved in form and had not suffered in substance.



# APPENDIX.

## *List of illustrative documents collected in Part III.*

Number and date of paper.	Subject.	PAGE OF SUMMARY ON WHICH PAPER IS QUOTED.	
		Parts I and II.	Part III.
	<b>ESTABLISHMENT OF A GOLD STANDARD.</b>		
Despatch to Secretary of State, No. 301, dated 24th August 1899.	Views of the Government of India on the report of the Indian Cur- rency Committee, 1898.	7, 18, 29	3
Despatch to Secretary of State, No. 421, dated 14th December 1899.	Discussion of the proportion of gold to be held in the Currency Reserve, and of the question of putting gold into circulation.	8	7
Despatch to Secretary of State, No. 103, dated 29th March 1900.	Question of rupee coinage, and of using gold in the Currency Reserve directly for the purchase of silver.	10	9
Despatch to Secretary of State, No. 302, dated 6th September 1900.	Proposals for the formation of a Gold Reserve Fund from the profits on the coinage of rupees.	12, 14	11
Despatch to Secretary of State, No. 121, dated 28th April 1904.	Proposal to hold a stock of silver bullion ready for immediate coinage in times of sudden pres- sure.	19	29
Despatch to Secretary of State, No. 236, dated 29th June 1905.	Proposal to establish a currency chest in London.	19	31
Despatch to Secretary of State, No. 143, dated 27th April 1905.	Proposals for the systematic pur- chase of silver.	20	33
Letter to Bengal Chamber of Commerce, No. 4021-A., dated 25th June 1904.	Statement of the principles which guide the Government of India in maintaining the volume of the rupee circulation, and in selling Council Drafts.	19, 21	35
Letter to Bombay Chamber of Commerce, No. 3290-A., dated 28th June 1900.	Refusal to give an undertak- ing to sell Telegraphic Transfers at a fixed rate or for unlimited amounts.	20	37
Despatch to Secretary of State, No. 346, dated 5th October 1899.	Proposals for the establishment of a Branch of the Royal Mint at Bombay. Question of coining half-sovereigns.	17	38



APPENDIX—*contd.*

Number and date of paper.	Subject.	PAGE OF SUMMARY ON WHICH PAPER IS QUOTED.	
		Parts I and II.	Part III.
	<b>ESTABLISHMENT OF A GOLD STANDARD—<i>concl'd.</i></b>		
Despatch to Secretary of State, No. 385, dated 25th December 1902.	Abandonment of the proposal to coin gold in India.	18	41
Despatch to Secretary of State, No. 331, dated 4th October 1900.	Rejection of the proposal to coin small gold pieces.	17	42
	<b>PAPER CURRENCY.</b>		
Letter to Presidency Banks and Chambers of Com- merce, &c., No. 5426-A., dated 26th October 1900.	Suggestions for popularising the use of currency notes.	27	47
Despatch to Secretary of State, No. 102, dated 27th March 1902.	Proposal to issue a universal five- rupee note.	27	50
Letter to Local Govern- ments, No. 2686-A., dated 14th May 1903.	Question of retaining the privilege by which sub-circle notes are payable at a Presidency town.	28	54
Despatch to Secretary of State, No. 146, dated 28th May 1903.	Proposal to transfer the currency office at Allahabad to Cawnpore.	19	57
Despatch to Secretary of State, No. 295, dated 18th August 1904.	Proposal to raise the invested por- tion of the Currency Reserve from 10 to 12 crores of rupees, and to invest the additional two crores of rupees in sterling secu- rities.	28	59
Despatch to Secretary of State, No. 418, dated 10th November 1904.	Proposal to consolidate and amend the law relating to Paper Cur- rency.	94	62
	<b>BANKING.</b>		
Despatch to Secretary of State, No. 17, dated 18th January 1900.	Proposal to constitute a Central Bank by amalgamating the existing Presidency Banks and augmenting their capital.	30	67
Despatch to Secretary of State, No. 56, dated 22nd February 1900.	Government of India's views on the objections raised by the Ex- change Banks to the creation of a Central Bank.	29	75
Despatch to Secretary of State, No. 199, dated 13th June 1901.	Abandonment of the scheme for a Central Bank.	31	78

APPENDIX—*contd.*

Number and date of paper.	Subject.	PAGE OF SUMMARY ON WHICH PAPER IS QUOTED.	
		Parts I and II.	Part III.
	<b>BANKING—<i>concl'd.</i></b>		
Despatch to Secretary of State, No. 264, dated 21st July 1904.	Proposal to allow the Presidency Banks to borrow in sterling.	21, 32	90
Despatch to Secretary of State, No. 351, dated 19th October 1905.	Resubmission of the above proposal.	24, 32	95
	<b>RAILWAY AND IRRIGATION FINANCE.</b>		
Despatch to Secretary of State, No. 112, dated 29th March 1900.	Review of the history and principles of the railway programme system.	33	103
Despatch to Secretary of State, No. 2, dated 7th January 1904. (Issued in Public Works Department.)	Views of the Government of India on Mr. Robertson's Report on the administration of Indian railways. Proposal to create a Railway Board, and to frame a three years' programme of railway borrowing.	34	125
Despatch to Secretary of State, No. 223, dated 23rd June 1904.	Proposal to regrant lapses on the annual allotment for railway expenditure up to a limit of Rs. 50 lakhs per annum.	35	147
Despatch to Secretary of State, No. 62, dated 9th February 1905.	Views of the Government of India on Sir E. Law's scheme of railway finance. Recommendations in favour of a bolder borrowing policy.	36	150
Despatch to Secretary of State, No. 18, dated 18th May 1905. (Issued in Revenue Department)	Views of the Government of India on the report of the Irrigation Commission. Adoption of a 20 years' programme of capital expenditure on Irrigation.	37	166
	<b>SYSTEM OF ACCOUNTS.</b>		
Despatch to Secretary of State, No. 16, dated 18th January 1900.	Proposal to exhibit the £ sterling in the Indian accounts.	55	177
Despatch to Secretary of State, No. 22, dated 17th January 1901.	Proposal to separate the abstract of revenue and capital accounts into two portions, and also to exhibit in the revenue accounts only the net figure for railway transactions.	55	180

APPENDIX—*contd.*

Number and date of paper.	Subject.	PAGE OF SUMMARY ON WHICH PAPER IS QUOTED.	
		Parts I and II.	Part III.
	<b>FAMINE INSURANCE POLICY.</b>		
Despatch to Secretary of State, No. 309, dated 31st August 1899.	Views of the Government of India on the recommendations made by the Indian Famine Commis- sion, 1898, in regard to the ad- ministration of the Famine In- surance grant.	56	185
Despatch to Secretary of State, No. 232, dated 11th July 1901.	Proposal to invest a moiety of the Famine Insurance grant, and to extend the classes of expendi- ture to which the rest of the grant may be applied.	56, 58	188
Despatch to Secretary of State, No. 185, dated 3rd July 1902.	Resubmission of the proposal to invest a moiety of the Famine Insurance grant.	59	201
Despatch to Secretary of State, No. 147, dated 28th May 1903.	Ditto                      ditto	59	205
	<b>TAXATION.</b>		
Despatch to Secretary of State, No. 300, dated 23rd October 1902.	Proposals for the remission of taxation.	70	211
Despatch to Secretary of State, No. 29, dated 12th February 1903.	Resubmission of the above pro- posals.	70	217
Despatch to Secretary of State, No. 16, dated 12th January 1905.	Proposals for the further remission of taxation.	70	222
	<b>PROVINCIAL FINANCE.</b>		
Despatch to Secretary of State, No. 318, dated 30th October 1902.	Scheme of <i>quasi</i> -permanent set- tlements.	74, 76	231
Despatch to Secretary of State, No. 24, dated 19th January 1905.	Views of the Government of India on the question of making special grants in aid of provincial re- sources.	66	237
Despatch to Secretary of State, No. 326, dated 8th September 1904.	Proposal that Provincial Govern- ments should be allowed to guarantee local railways.	76	241
	<b>OTHER FINANCIAL QUES- TIONS.</b>		
Letter to Resident at Baroda, No. 1937-I. A., dated 4th May 1900. (Issued in Foreign Department.)	Conversion of Native State cur- rencies (Baroda).	27,      83	245

v  
APPENDIX—*contd.*

Number and date of paper.	Subject.	PAGE OF SUMMARY ON WHICH PAPER IS QUOTED.	
		Parts I and II.	Part III.
	<b>OTHER FINANCIAL QUESTIONS—<i>contd.</i></b>		
Letter to Resident at Baroda, No. 2944-I. A., dated 7th July 1900. (Issued in Foreign Department.)	Conversion of Native State currencies (Baroda).	27, 83	247
Despatch to Secretary of State, No. 15, dated 12th January 1905.	Proposal to introduce a nickel one-anna piece.	85	250
Despatch to Secretary of State, No. 9, dated 5th January 1905.	Proposal to substitute bronze coins for existing copper coins.	85	252
Despatch to Secretary of State, No. 417, dated 10th November 1904.	Summary of the proposed amendments of the Indian Coinage Act.	87	255
Despatch to Secretary of State, No. 146, dated 16th May 1901.	Proposal to convert the 3 per cent. rupee loan of 1893 into 3½ per cents.	89	258
Despatch to Secretary of State, No. 189, dated 2nd July 1903.	Proposals to popularize enfaced paper.	90	262
Despatch to Secretary of State, No. 337, dated 15th September 1904.	Proposals for financing the Calcutta Improvement Scheme.	71, 92	265
Letter No. 93, dated 18th July 1905. (Issued in Home Department.)	Revised proposals for financing the Calcutta Improvement Scheme.	93	277
Despatch to Secretary of State, No. 178, dated 6th June 1901.	Views of the Government of India on the recommendations of the Welby Commission.	94	285
Despatch to Secretary of State, No. 333, dated 29th October 1903.	Scheme for financing the programme of Special Defence Works.	95	286
Extract paragraphs 18 to 22 of Secret Despatch to Secretary of State, No. 138, dated 29th September 1904. (Issued in Military Department)	Scheme for financing the scheme of Army Reorganization and Redistribution.	95	289
Despatch to Secretary of State, No. 230, dated 30th July 1903.	Proposal to form a Savings Bank Reserve Fund by the investment of a proportion of the deposits in sterling securities.	96	292

APPENDIX—*contd.*

Number and date of paper.	Subject.	PAGE OF SUMMARY ON WHICH PAPER IS QUOTED.	
		Parts I and II.	Part III.
	<b>OTHER FINANCIAL QUESTIONS—<i>concl'd.</i></b>		
Despatch to Secretary of State, No. 222, dated 23rd June 1904.	Resubmission of the above proposal.	96	295
	<b>COMMERCE.</b>		
Despatch to Secretary of State, No. 384, dated 25th December 1902.	Rules for levying fees for overtime work done by customs officers.	39	299
Despatch to Secretary of State, No. 469, dated 29th December 1904.	Proposal to create an Imperial Customs Service.	40	303
Letter to Chambers of Commerce, No 2747-S. R., dated 20th May 1902	Proposal to create a Bureau of Commercial Intelligence.	40	311
Despatch to Secretary of State, No 337, dated 4th December 1902.	Ditto ditto	41	313
Despatch to Secretary of State, No. 61, dated 1st October 1903. (Issued in Home Department.)	Proposal to create a Department of Commerce and Industry in charge of a sixth Member of Council.	41, 42	316
Resolution No. 539, dated 1st March 1905. (Issued in Home Department.)	Constitution of the Department of Commerce and Industry.	42	345
Despatch to Secretary of State, No. 140, dated 15th May 1902.	Imposition of a cess on exported tea.	43	351
Despatch to Secretary of State, No. 278, dated 23rd August 1900.	Proposal to exempt the produce and manufactures of maritime Native States from British Indian customs duty.	44	353
Despatch to Secretary of State, No. 346, dated 18th October 1900.	Government of India's proposals in connection with the enhancement of the French import duty on Indian coffee.	47	355
Despatch to Secretary of State, No. 34, dated 6th July 1905. (Issued in Commerce Department.)	Government of India's proposals in connection with the enhancement of the French import duty on Indian silks.	48	358

APPENDIX—*contd.*

Number and date of paper.	Subject.	PAGE OF SUMMARY ON WHICH PAPER IS QUOTED.	
		Parts I and II.	Part III.
	<b>COMMERCE—<i>concl'd.</i></b>		
Despatch to Secretary of State, No. 132, dated 5th May 1904.	Government of India's proposals in connection with the refusal of Japan to concede most-favourable-nation treatment to Indian products.	49	361
Despatch to Secretary of State, No. 324, dated 22nd October 1903.	Views of the Government of India on the question of Preferential Tariffs.	51	363
Despatch to Secretary of State, No. 258, dated 21st July 1904	Rejection of proposal to register trade marks in India.	100	406
Despatch to Secretary of State, No. 81, dated 7th March 1901.	Views of the Government of India on the question of lascars' accommodation.	103	409
Resolution No. 4317 S R., dated 25th August 1900.	Decision to postpone legislation for the regulation of native provident societies.	106	413
	<b>OPIUM AND EXCISE.</b>		
Despatch to Secretary of State, No. 269, dated 22nd August 1901.	Proposal to transfer the control of the Benares Opium Agency to the Government of the United Provinces.	107	419
Despatch to Secretary of State, No. 306, dated 31st August 1899.	Reform of opium administration in Lower Burma	110	424
Despatch to Secretary of State, No. 126, dated 21st May 1903.	Reform of opium administration in Upper Burma.	112	431
Letter to Local Governments, No 2455-S. R., dated 21st April 1904.	Statement of the principles of the Government of India's excise policy (Mr. Lely's memorandum).	62, 117	434
Resolution No. 5001-Exc., dated 7th September 1905.	Appointment of a Committee to enquire into the administration of excise in India.	117	437
Letter to Major Bedford, I.M.S., No. 3914-Exc., dated 20th June 1904.	Improvement of the quality of country liquor.	118	443
Letter to Government of Bengal, No. 6208-Exc., dated 30th September 1904.	Procedure for consulting public opinion in regard to the location of liquor shops in Bengal.	120	445

APPENDIX—*concl'd.*

Number and date of paper.	Subject.	PAGE OF SUMMARY ON WHICH PAPER IS QUOTED	
		Parts I and II.	Part III.
	<b>OPIUM AND EXCISE—<i>concl'd.</i></b>		
Letter to Chief Commissioner of Assam, No. 2015-S. R., dated 26th March 1904.	Reform of excise administration in Assam (Mr. Buckingham's memorandum).	121	450
Despatch to Secretary of State, No 97, dated 31st March 1904.	Ditto ditto	122	456
	<b>MISCELLANEOUS.</b>		
Letter to Government of Madras, No. 1451-S. R., dated 3rd March 1904.	Views of the Government of India on the question of abolishing the income-tax.	133	461
Despatch to Secretary of State, No. 11, dated 13th April 1905. (Issued in Commerce Department.)	Proposals for the introduction of unified one-anna and half-anna stamps for postal and revenue purposes.	137	463
Despatch to Secretary of State, No. 328, dated 29th October 1903.	Views of the Government of India on the revision of the Eastern Mail Contract.	142	465
Letter to Government of Madras, No. 4207-S. R., dated 4th July 1904.	Practice of the Government of India in regard to the purchase of articles manufactured in India.	145	469
Despatch to Secretary of State, No. 189, dated 2nd June 1904.	Views of the Government of India on the abolition of exchange compensation allowance.	146	471
Despatch to Secretary of State, No. 231, dated 7th August 1902.	Proposal to reduce the period for calculating pension from five to three years.	147	475
Despatch to Secretary of State, No. 254, dated 20th July 1899.	Protest of the Government of India against the reduction of the privileged rate of interest granted to the Uncovenanted Service Family Pension Funds.	148	477
Resolution No. 271-P., dated 14th January 1904.	Establishment of the Bengal and Madras Service Family Pension Fund.	148	482
Letter to Local Governments, No. 4921-P., dated 8th September 1905.	Proposals for the formation of a general service provident fund open to all civil officers in permanent superior pensionable service.	148	484







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